CITY OF TORONTO

FINAL REPORT OF THE JOINT COMMITTEE ON PROPERTY TAX REFORM

(As Amended and Adopted by City Council on April 1, 1982)

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(As amended and adopted by City Council on April 1, 1982)

On March 30, 1982, the Toronto Board of Education adopted this report subject to the inclusion of Recommendation 11.3.

EXECUTIVE SUMMARY

1. Introduction

The Joint Committee on Property Tax Reform was established by Council in February 1979. The Committee's mandate was to study the City's options in the field of property tax reform at what appeared to be a critical time: after many years of Provincial planning for a comprehensive tax reform across the Province, the initiative had shifted to the municipal level. Province-wide proposals were abandoned, and municipalities were offered the opportunity to initiate local reform under Section 86** of The Assessment Act.

The initial membership of the Committee was as follows:

Mayor John Sewell, Chairman
Alderman Art Eggleton
Alderman Andrew Paton
Alderman David White
Trustee Jack Graham, Metropolitan Separate School Board
Trustee Tony Silipo, Toronto Board of Education
Trustee Bob Spencer, Toronto Board of Education
Trustee Patrick Case, Toronto Board of Education (Alternate)
Trustee Maureen Fitzpatrick, Toronto Board of Education (Alternate)

The current membership of the Committee is as follows:

Mayor Art Eggleton, Chairman
Alderman Andrew Paton
Alderman June Rowlands
Alderman David White
Alderman John Sewell
Trustee Walter Melnyk, Metropolitan Separate School Board
Mr. Bob Spencer, Chairman, Toronto Board of Education
Trustee Patrick Case, Toronto Board of Education
Trustee Tony Silipo, Toronto Board of Education (Alternate)
Trustee David Webster, Toronto Board of Education (Alternate)

In carrying out its mandate, the Committee has been assisted by staff from various City Departments, particularly the Planning and Development Department and the Finance Department, as well as by Toronto Board of Education staff and consultants. The Committee was also assisted by Mr. Hugh MacKenzie who acted as a consultant in the preparation of the May 1979 Interim Report and early stages in the preparation of this report. Staff of the Provincial Ministry of Revenue provided valuable assistance and information.

2. Basic Policy Directions

The major policy conclusions of the Draft Report are as follows:

(a) that market value assessment in general, and the Province's Section 86 program in particular, would have a damaging impact on lower-income homeowners and tenants in the City unless major reforms of the Provincial property tax credit were implemented;

(b) that the impact on low-income homeowners and tenants is sufficiently serious that the City should not exercise the option to enact Section 86, or other market-value reform, until an improved Provincial credit is in place;

(c) that loss of commercial assessment due to successful private appeals will likely be a serious problem, imposing substantial additional burdens on taxpayers in other classes, until comprehensive reform is implemented;

(d) that the appropriate response to the loss of assessment resulting from appeals, pending Provincial action to improve the tax credit and implementation of comprehensive reform in the City, is an independent City role in the assessment review process, particularly the initiation of appeals by the City respecting under-assessed commercial properties.

3. The Proposed Tax System

This report contains a set of proposals which could serve as the foundation for comprehensive property tax reform in the City of Toronto.

The basic elements of the package of proposals are as follows:

- Once improvements to the Provincial tax credit are implemented so as to provide greater relief to low- and moderate-income households, current market value should serve as the basis for property tax assessment in the City.

- Classes of properties should be designated, so that rates of tax are the same within each class while different classes may have different tax rates. These classes should be as follows: single residences; 2-6 unit multiple residences; 7+ unit multiple residences; small commercial (under 10,000 sq. ft. commercial floor area and under seven storeys); large commercial (all other commercial properties); industry; and institutional/residual.

- Provision should be made for future changes in the share of property tax contributed by the various classes, as considerations of equity and land-use policy may make such shifts desirable. Authority to initiate these shifts should lie with City Council, and should be subject to Provincial overview.

- Initially following reassessment, the class shares of property tax should be as they were in 1980 except that the share of industry should be reduced so that the effective tax rate on the industrial class is no higher than that on the large commercial class. The present higher rate on industry seems neither equitable nor consistent with the City's land-use policies.

- The business tax should be continued, but the present distinction among types of business should be abolished in favour of a uniform rate, subject only to small retail selling premises having a preferential rate at one-half the general rate.

The Recommendations published at the end of the Final Report put forward a more detailed formulation of the above proposals, as well as outlining certain other detailed proposals.

4. Future Steps

The next stage in the process initiated by the Committee is to invite the public to comment on this Final Report, and to hold a public meeting for the purpose of hearing deputations. Following consideration of public submissions by the Committee, an appropriately revised report will then be submitted to Council and the Boards of Education for endorsement and transmittal to the Province for its consideration.

As noted previously, the Committee has decided not to recommend a Section 86 reassessment in the City while the Provincial tax credit program remains in its present form. The proposals in the Committee's report would place the onus back on the Province to take the next step which would lead to comprehensive property tax reform.

In the interim, the Committee proposes that actions be taken by the City to intervene in the assessment review and appeal processes to protect the City's property tax base.

** It should be noted that The Assessment Act has been consolidated and that all section numbers in this report refer to the previous version of the Act. The previous Section 86 has become Section 63, the previous Section 43 has become Section 33, the previous Section 87 has become Section 64, the previous Section 42 has become Section 32.

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1

INTRODUCTION

The Committee's Interim Report outlined a number of problems currently facing municipal finance in the City of Toronto: the differential assessments within classes of property (see Figures 1, 2, 3, 4 and 5); the absence of any flexibility in the tax system to vary tax burdens on different types of property and hence the inability of City Council to use the tax system as a policy instrument; the gradual erosion of the tax base as successful appeals reduce assessments for currently over-assessed properties while leaving under-assessed properties at the same level (see Table 1); the inadequacy of the Provincial Tax Credit Program in dealing with high relative residential tax burdens faced by low-income families and individuals in the City of Toronto; and the incomprehensibility of the entire system to the taxpayer.

The subsequent Draft Report dealt with the second phase of the Committee's work, the development of a proposed system of taxation which meets the special needs of the City of Toronto. It was approved by the Committee and distributed to the Board of Education of the City of Toronto and the Metropolitan Toronto Separate School Board as well as to members of the public for comment.

This report reflects the third phase of the Committee's work, consideration of the public's comments and the finalization of the proposals. It is expected that this report will be submitted to City Council, the Board of Education of the City of Toronto and the Metropolitan Separate School Board. The objective would be to have endorsements from all parties by March 15, 1982, so that the Final Report could be transmitted to the Province by late March, 1982.

The report also contains (Section 11) a discussion of the proposed system in relation to the Province's present "Section 86" program of assessment reform.

Council and the Committee have taken as a starting point in the development of a reformed tax system the assumption that real property taxation will continue to be the major source of local revenue in the City of Toronto and Metro.

The resolution establishing this Committee set out requirements for any potential system. According to that resolution, the system should:

- give the maximum possible flexibility to the City in setting tax policy;
- allow for new sources of revenue on the property tax base through measures such as special levies on businesses that benefit from transit;
- minimize the impact on low- and moderate-income neighbourhoods;
- in conjunction with a revised property tax credit system, have a residential component whose incidence is neutral or progressive for incomes below the average;
- be clear and easily understood; and
- permit the City to control tax shifts between classes of property.

In the context of those guidelines, the Committee is recommending a proposal for a reformed tax system for the City of Toronto.

The three basic elements of the proposed system are:

- Assessment based on market value;
- A system of differential tax rates for different classes of property; and
- Improved tax relief for low- and moderate-income taxpayers.

Each of these proposals plays a critical role in the new system.

The proposal for a change in the basis for assessment to market value cannot stand alone and would be undesirable if not implemented as part of a series of reforms.

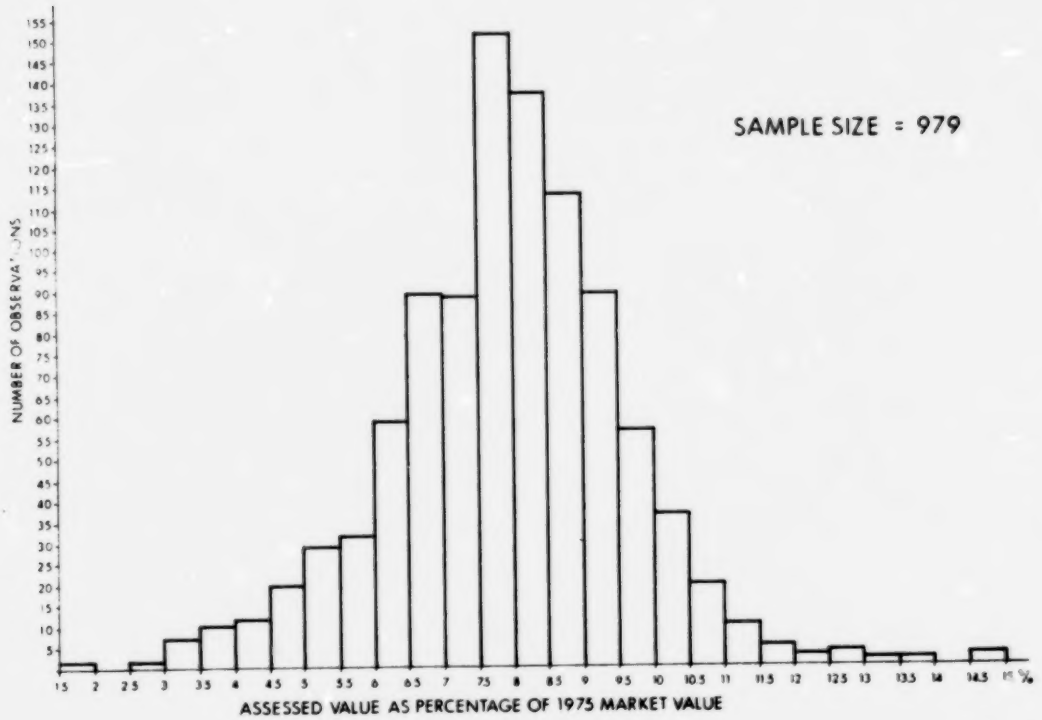
The proposal for improved tax relief is important enough that its presence in the system is considered to be essential.

A system which has different effective tax rates for different classes of property plays a dual role: it permits differences in effective property tax rates among classes to be clearly understood; and it offers the scope to the City to use the tax system to achieve its land use and equity objectives.

The next three sections deal with these key elements. Subsequent sections fill out further details of the proposed system.

FIGURE 1 Single-Family Residential Sample — City of Toronto

Frequency Distribution of Assessment To 1975 Market Value Percentages



SOURCE: Assessment Division, Ministry of Revenue

This bar graph appeared in the Committee's May 1979 Interim Report, as did Figures 2, 3, 4 and 5. Each graph shows the disparity of effective tax rates on individual properties in samples drawn from the five major property classes, under the present system of assessments. For example, in Figure 1, the largest number of properties is found near the 8% range. Those at 4% or less will be paying less than half the effective tax rate in relation to value. Following reassessment on a market value basis, all properties would move to the centre of the graph; there would be no tax increase on single residences as a group, but some would pay more and others less.

Table 1 also appeared in the Interim Report and shows the loss of assessment in the commercial classes from recent appeals.

FIGURE 2 Multiple Unit Residential Building Sample — City of Toronto

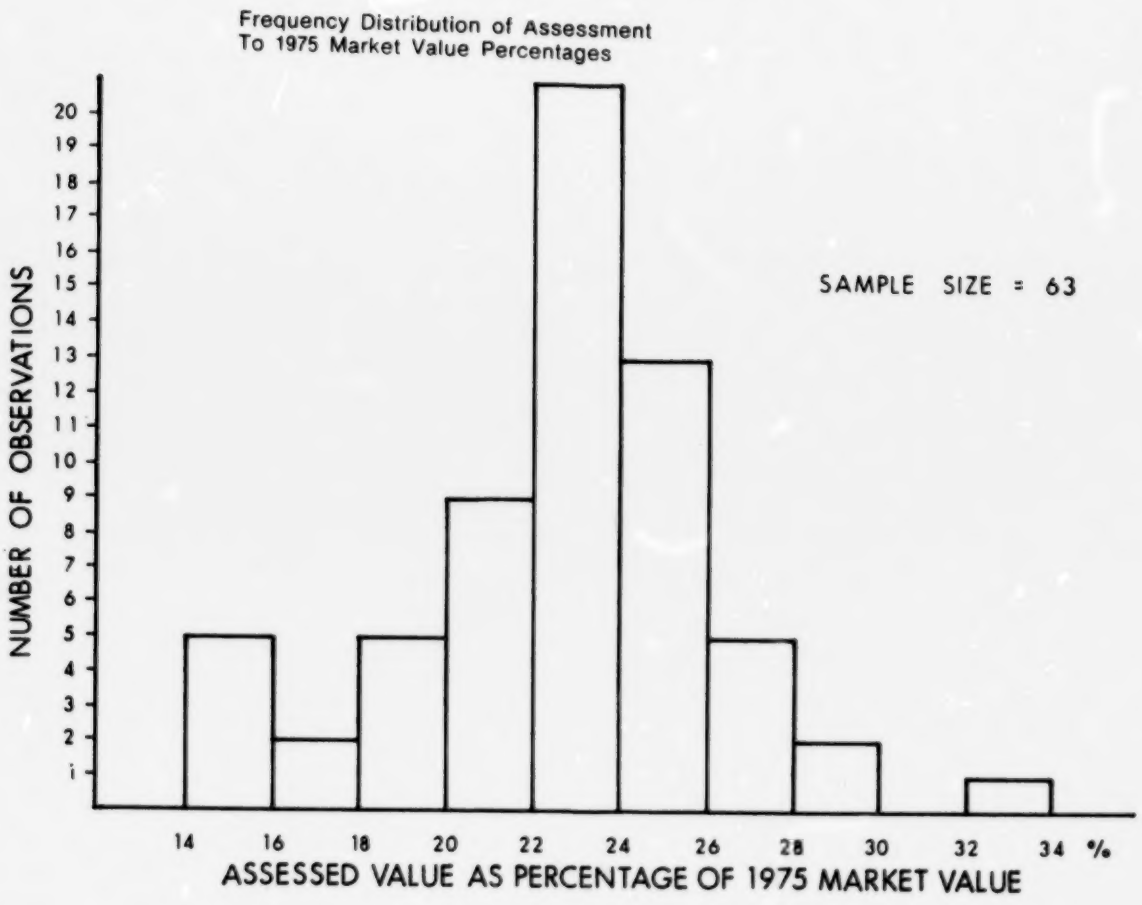


FIGURE 3 Small Business Commercial Sample — City of Toronto

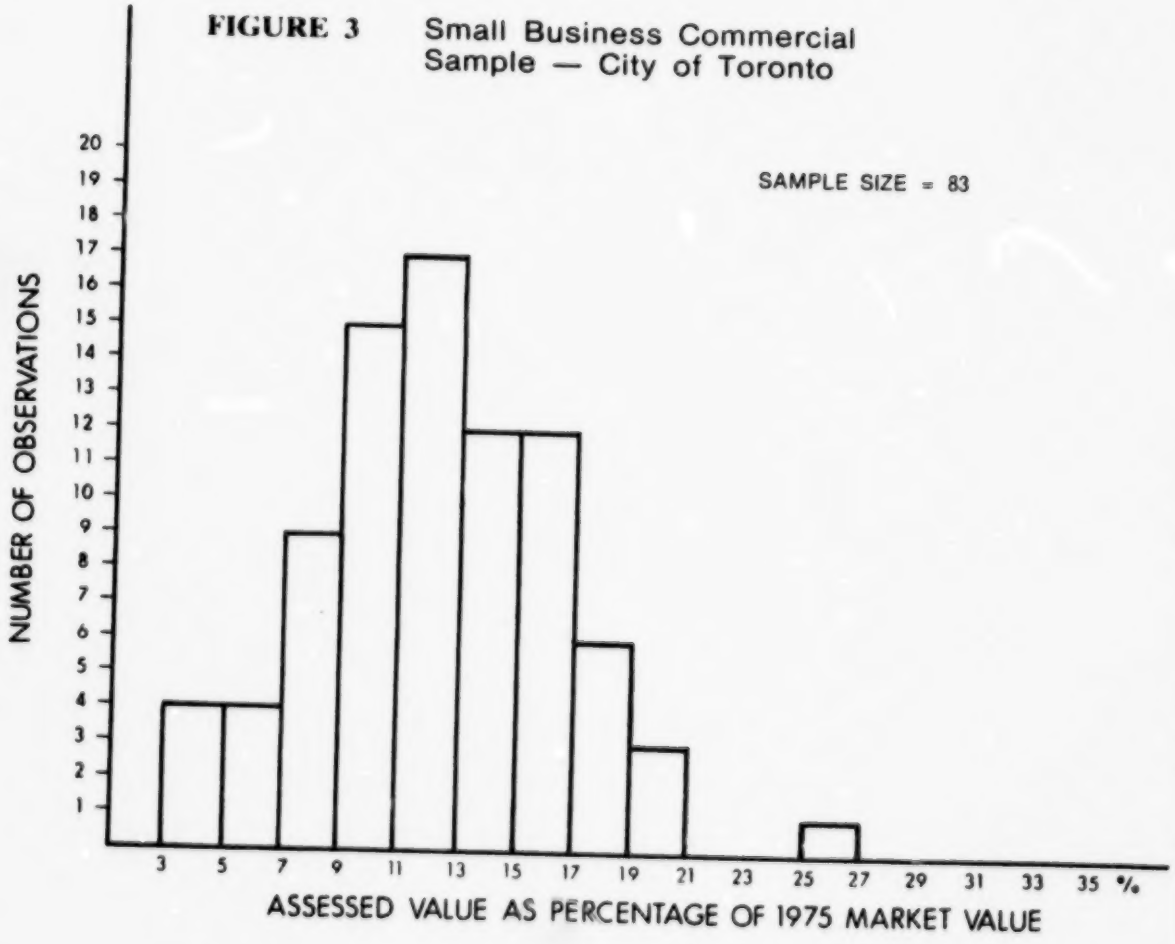
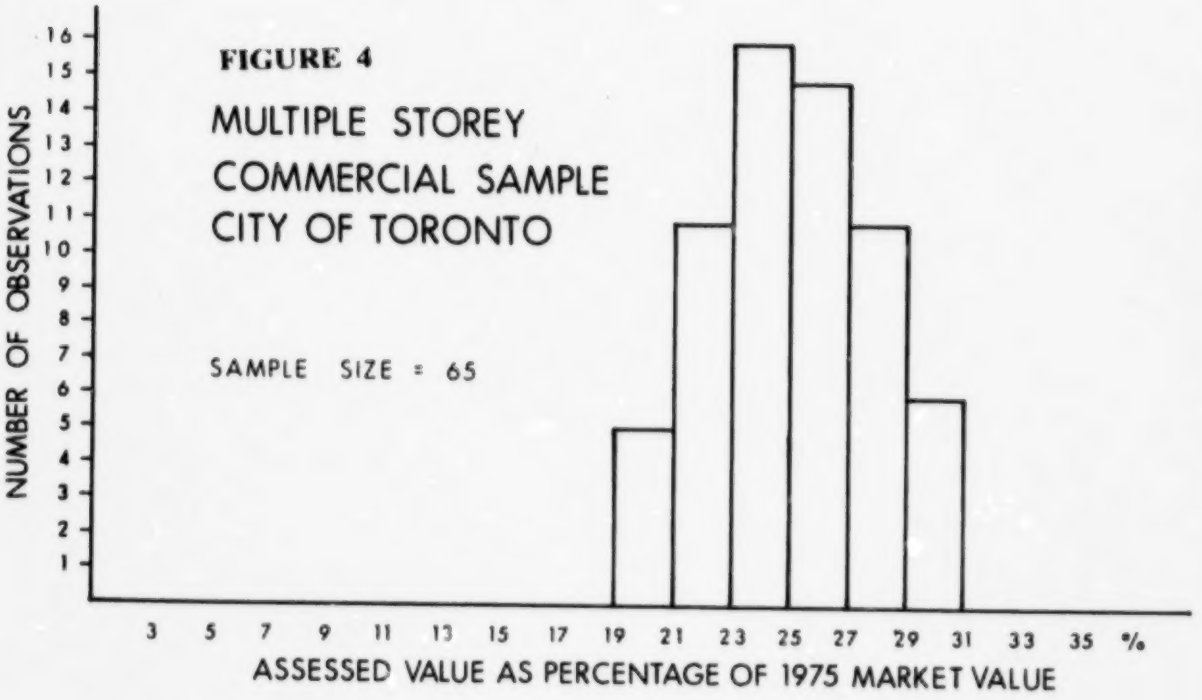


FIGURE 4



FREQUENCY DISTRIBUTION OF ASSESSMENT TO 1975 MARKET VALUE PERCENTAGES

SOURCE:
ASSESSMENT DIVISION, MINISTRY OF REVENUE

FIGURE 5 Industrial Sample — City of Toronto

Frequency Distribution of Assessment
To 1975 Market Value Percentages

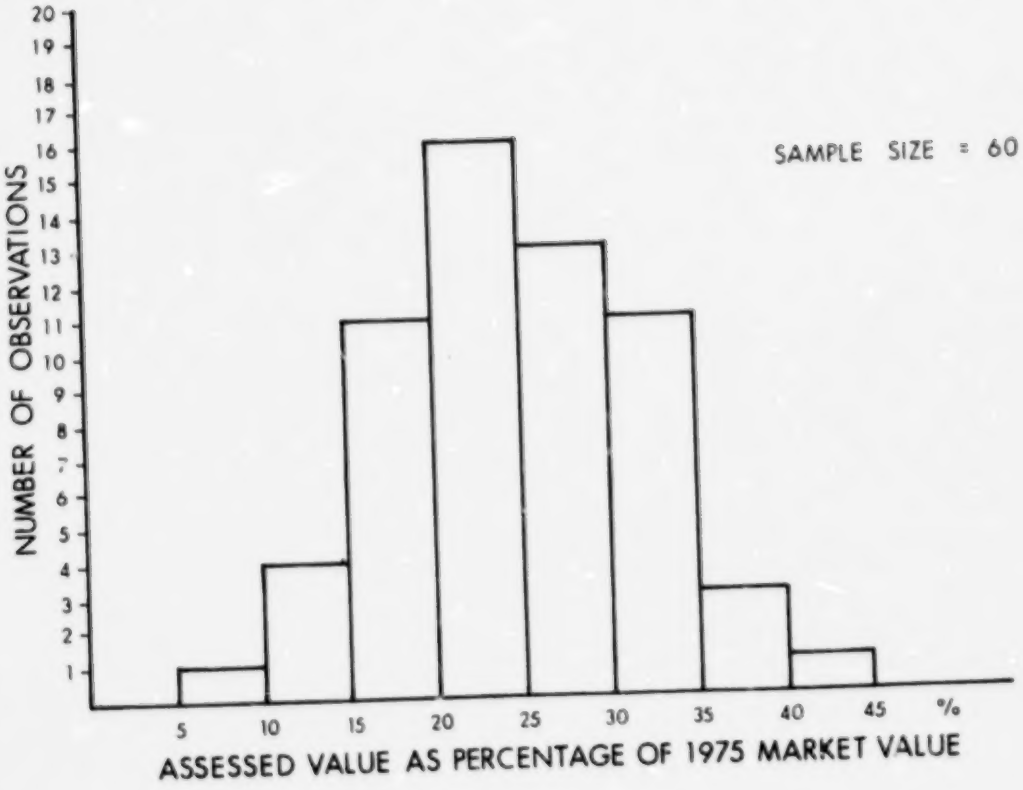


TABLE 1

City of Toronto Assessment Lost Due to Review Court Appeals 1976, 1977, 1978, 1979

	Realty				
	Residential	Commercial & Industrial	Sub-Total	Business	Total
1975 Assessment for 1976 Taxation					
Assessment before Appeals	$1,113,756,526	$1,005,935,982	$2,119,692,508	$446,825,442	$2,566,517,950
Assessment after Appeals	$1,144,266,656	$ 981,585,566	$2,125,852,222	$435,351,327	$2,561,203,549
Assessment Lost (Gained)	$ (30,510,130)	$ 24,350,416	$ (6,159,714)	$ 11,474,115	$ 5,314,401
Percentage of Total Assessment Lost (Gained)	(1.19%)	0.95%	(0.24%)	0.45%	0.21%
Tax Dollars Lost (Gained) (City + School + Metro)	$ (4,256,163) (est.)	$ 3,894,605 (est.)	$ (361,558) (est.)	$ 1,835,169 (est.)	$ 1,473,611 (est.)
1976 Assessment for 1977 Taxation					
Assessment before Appeals	$1,148,997,603	$1,030,707,494	$2,179,705,097	$458,381,397	$2,638,086,494
Assessment after Appeals	$1,144,871,358	$1,012,269,739	$2,157,141,097	$443,329,664	$2,600,470,761
Assessment Lost	$ 4,126,245	$ 18,438,755	$ 22,565,000	$ 15,051,733	$ 37,615,733
Percentage of Total Assessment Lost	0.16%	0.69%	0.86%	0.57%	1.43%
Tax Dollars Lost (City + School + Metro)	$ 642,044 (est.)	$ 3,283,027 (est.)	$ 3,925,071 (est.)	$ 2,680,111 (est.)	$ 6,605,182 (est.)

Table 1 (cont'd)

1977 Assessment for 1978 Taxation					
Assessment before Appeals	$1,208,833,601	$1,056,985,776	$2,265,819,377	$472,725,999	$2,738,545,376
Assessment after Appeals	$1,211,552,709	$1,026,746,447	$2,238,299,156	$458,338,392	$2,696,637,548
Assessment Lost (Gained)	$ (2,719,108)	$ 30,239,329	$ 27,520 221	$ 14,387,607	$ 41,907,828
Percentage of Total Assessment Lost (Gained)	(0.09%)	1.10%	1.01%	0.52%	1.53%
Tax Dollars Lost (Gained) (City + School + Metro)	$ (446,042) (est.)	$ 5,675,620 (est.)	$ 5,229,578 (est.)	$ 2,700,410 (est.)	$ 7,929,988 (est.)
1978 Assessment for 1979 Taxation					
Assessment before Appeals			$2,293,251,519	$481,841,701	$2,775,093,220
Assessment after Appeals		Residential-Commercial	$2,276,639,045	$475,805,526	$2,752,444,571
Assessment Lost		Allocation Not Available	$ 16,612,474	$ 6,036,175	$ 22,648,649
Percentage of Total Assessment Lost			0.60%	0.22%	0.82%
Tax Dollars Lost (City + School + Metro)			$ 3,354,723	$ 1,218,945	$ 4,573,668

NOTE 1: Increase in residential assessment in 1976 due to a shift of approximately $10 million in assessment from the commercial category to the residential category as a result of an appeal.

NOTE 2: The above figures for assessment lost or gained in each year are the results of only the first stage of assessment appeals. Decisions of the Assessment Review Courts may be appealed to higher courts by the taxpayer, the Regional Assessment Commissioner and the municipality.

SOURCE: Assessment Division, Ministry of Revenue

II

THE ASSESSMENT BASE

The assumption underlying most work on property tax reform in Ontario in the past ten to fifteen years has been that a reformed system should be based on the market value of property. Assessment data which have been assembled by the Provincial Government incorporate the market value principle.

The Committee undertook to examine alternatives and modifications to the market value concept in an attempt to determine an assessment base which would: (1) result in a comprehensible and fair basis for taxation; and (2) support the land use objectives of the City of Toronto.

The Committee has come to the conclusion that regularly updated market values would constitute the assessment base which most closely meets these standards. The Committee's support for such an assessment base is, however, conditional on other actions being taken to reduce or eliminate some of the undesirable effects of a purely market value-based reform.

1. The Determination of Market Value for Assessment Purposes

The Assessment Branch of the Ministry of Revenue has calculated estimates of 1975 market value for all properties in the Province. These estimates are now being further updated to 1980 values. The objective in developing these estimates is to determine what the Ministry terms a property's "most probable sale price". Assessors follow practices which resemble those of appraisers in the market.

For commercial and multiple-residences properties, values are based on the potential income from the property in its current use. Where evidence strongly suggests that development (or redevelopment) is likely, estimates are adjusted to take account of this development potential.

As an alternative to the income approach to valuation, the "replacement cost" approach is sometimes used. In Ontario assessment practice, replacement cost is used only in cases where an absence of income data makes the income approach to valuation inapplicable: mainly for properties owned by utilities, such as telephone switching stations. Since these are not rented out, relevant income data are non-existent.

Except in these special cases, either approach to valuation can be used; however, only when a structure is new will they yield equivalent results. In the case of a new structure, the income approach estimates rents which could be earned on the structure concerned, and the capitalized value of these rents is the resulting estimate of value - land and building combined since both are required to earn the rents. If building cost is subtracted from the total, the result will be a good estimate of current land value alone. The replacement cost approach adds land value to building cost, arriving at approximately the same total without use of income data, as long as land value can be estimated independently from sales of similar sites in the vicinity.

As the building ages, the income approach continues to apply rents realizable on the structure to estimate total property value. The replacement cost approach continues to add land value and building value measured independently: land estimated from sales of similar sites in the vicinity (at least in principle), and building by the original cost adjusted downward for depreciation and then upward for inflation of construction costs.

Because income is tied to the current use until there is clear site-specific evidence of imminent redevelopment, taxes based on an income estimate of value should not overburden the current use - even in circumstances where a surge in demand for sites in the

vicinity bids up market land values to a sum in excess of total "property value" as reckoned by the income approach. This would not be true under the replacement cost approach, where there is ongoing re-valuation of land based on market trends, and a building value estimate added to make the property value estimate still higher. In such cases, under this replacement cost approach, the current use could be over-burdened by taxes. If the replacement cost method were modified somewhat to use a land value less directly related to market trends, the effect would be mitigated, but the income approach still seems better related to ability-to-pay.

For the reasons outlined, the Committee supports the present practice of relying on the income approach wherever possible. Under this practice, only a small number of properties are subject to replacement cost evaluation, and there is no reason to suppose that more than a small minority of these would be penalized by this approach. The appeal process appears to be the most appropriate means of making adjustments for such isolated cases.

In the case of single residences, estimated market values are determined on the basis of actual sale values for similar properties in the area. Adjustments are made to allow for any special characteristics of a property which may affect its market value.

2. Alternatives to Market Value

The Committee has examined what appear to be the three principal alternatives to regularly updated market value as an assessment base and has concluded that none of these alternatives should be adopted. The alternatives examined were: (1) continuation of the present system of assessments; (2) assessments based on a system of site value taxation; and (3) assessments based on the benefit principle.

The Present Assessment System

The many anomalies and inequities associated with the present system have already been discussed in the Committee's Interim Report. Although based in principle on market values, the present system of assessments has not been updated since 1949. Furthermore, it does not even reflect the 1940 values used as the original valuation basis in a consistent manner, because of the many adjustments made by assessors in accordance with assessment manuals.

The maxim that "an old tax is a good tax" is sometimes put forward to justify the current assessment system, with all of its apparent inequities, being retained. The basis for such a position is that seeming inequities gradually disappear as properties are sold, with buyers paying premium prices for properties with favourable tax treatment, and discounted prices for properties with unfavourable tax treatment. For this process to eliminate the inequities of the existing tax system, buyers would have to be fully aware of and respond appropriately to all the variations in the existing system. Further, there would have to be some certainty that the existing system would continue into the future. These conditions have almost certainly not been met. It should be noted that there has been great uncertainty in Ontario about the future of property taxes since the late sixties so that even the most economically rational and informed investor would have had difficulties determining how to capitalize tax variations. Accordingly, the Committee has concluded that the inequities of the present system are real and ongoing, and affect current property owners.

A further problem in retaining the present system is that the Assessment Review Court has already begun to apply market value principles within classes of property in deciding on appeals filed by over-assessed property owners. Clearly, retaining the present system of assessments cannot result in a consistent, equitable tax system while the Assessment Review Court continues this practice. On the other hand, if the Assessment Review Court abandoned market value principles in an attempt to be consistent with the existing system, then a further inequity results between those property owners who have already appealed and those who have not.

A final argument against retaining the present system of assessments is that it is largely incomprehensible to taxpayers. This contributes to a lack of public confidence in the integrity of the tax system.

Site Value Taxation

The second alternative assessment base considered was a tax system using land values alone, i.e., with the value of buildings omitted. Basing assessments on land value alone - a system known as site value taxation - would have implications which the Committee views as undesirable.

In comparing site value with total property value, and given the need to raise the same revenue under either one, it is clear that an assessment system which ignores the value of buildings would yield lower tax burdens on properties with higher density existing structures, and higher burdens on less intensively developed properties, than would a system which includes both land and buildings. The Committee considers the pattern of tax burdens arising under the combined structure/land assessment base to be the more equitable of the two in that it better reflects ability-to-pay.

The following example illustrates the point. Two hypothetical properties in the financial district have the same land area (100,000 sq. ft.). One has a new 800,000-square-foot office building, the other an old 50,000-square-foot commercial structure. The market value of the second property is essentially land value, since a successful purchase bid will take account of redevelopment potential which is only minimally affected by the existing structure. This will be the assessment as long as the evidence of redevelopment potential is clear. The land value of both sites may be $10,000,000 with the building value on the fully developed site being $60,000,000, yielding a total property value of $70,000,000. With comparable mill rates to those currently in force and assessments based on building and land value combined, the fully developed property would pay $1,400,000 while the undeveloped property would pay $200,000. Under site value taxation, assessments would be equal and each would pay the same tax - $800,000/yr. if their combined tax were to raise the same total revenues under either system.

With site value assessment, taxes are increased on properties which are less intensively developed while no additional property tax is incurred in redeveloping upward to the limit of economically viable permitted density. Consequently, the redevelopment of currently under-developed properties would be accelerated and the redevelopment of some sites may be forced if tax increases make current uses not financially viable. The Committee can find no basis in the City's land-use policies on which to support a proposal for such a system of strong incentives for early redevelopment.

Assessments based on the Benefit Principle

The third alternative system of assessment considered and rejected by the Committee was assessment according to the benefit principle. The basis for such an assessment system is that categories of property which make relatively heavy demands on public services should pay more tax than categories of property which make less intensive demands. Such an approach could yield a substantially different pattern of tax burdens from that emerging under market value assessments, since market values do not necessarily bear a fixed relationship to demands made on public services.

In the Committee's view, the major problem with the benefit principle has to do with the difficulty of measuring demands on public services and relating different demands to definable characteristics of properties. Proposals have been put forward, for example, to base assessments on lot area as a proxy for the degree of utilization of public services. Surely, however, this would be a most imperfect measure of such utilization. Because of the practical difficulties in fairly relating assessments to demands on public services, the Committee believes that the benefit principle should be rejected as a general basis for assessments.

Proposals have been put forward for special levies according to the benefit principle on properties which derive an extraordinary benefit from particular public services. The argument is that rapid transit lines, for example, increase the profitability of businesses located nearby and that such beneficiary businesses should bear an additional tax burden.

With a system of regularly up-dated market values as the assessment base, such additional benefits are - in principle - incorporated into the tax base through increased property values. For example, if the introduction of a new rapid transit line yields benefits to particular properties, then it can be expected that the values of these properties would be increased and thus the tax liability would correspondingly increase, 'recapturing' the private benefits arising out of public investments. The continuing reassessment process (which does not take place in the present tax system) may thus reduce the need for special benefit taxes. It might be noted that the Joint Metro/T.T.C. Transit Policy Committee also considered the notion of special levies for transit financing purposes and reached the same conclusion as this Committee: that market value taxation is preferable and should remove the need for such levies.

3. Further Issues

Market Value and the State of Repair of Properties

In a value-based system of assessments, properties in a poor state of repair will tend to be assessed at lower values than well-maintained properties. Although assessed market values may not fully reflect the state of repair of property, it is possible that the tax system could create a disincentive to maintaining residential property in a good repair by raising taxes on well-maintained properties relative to poorly-maintained properties. Market value assessments should be modified to eliminate any such disincentive. This could best be done by assigning market values to residential properties as if they were in a good (i.e. not substandard) state of repair, i.e. market value determined as if all work required under outstanding City work orders had been carried out.

The current assessment system appears to discourage upgrading of property since under Sections 43, 86 and 87 of The Assessment Act any work done on a property which raises its market value by more than $2500 can cause a property to be reassessed immediately. (Renovations costing $2500 will not necessarily increase market value by that amount).

An appropriate policy would be to specify a list of renovation activities which would trigger immediate reassessment, while exempting all others from reassessment between comprehensive reassessment years. The Assessment Act should specify a list of improvements which would result in immediate reassessment as follows:

1. altered load-bearing walls of the structure;
2. increased (decreased) number of units;
3. increased livable floor space;
4. increased (decreased) number of rooms

The advantage of this approach would be that property owners would know in advance explicitly what type of work would cause an immediate reassessment. Additionally, the City would benefit from immediate increases in assessment on properties where extensive renovation work is done. A disadvantage may be that other improvements that would not cause increases in assessment with this approach might still increase the market value substantially. Nevertheless, on balance, the approach suggested appears to be the most appropriate means of dealing with the renovation issue.

Historic Buildings

Many of the City's historic buildings designated under The Ontario Heritage Act may experience substantial tax increases following reassessment. Market trends, reinforced by the City's density bonus provisions respecting historic buildings, appear to be favouring the retention of historic buildings and many have been renovated at considerable cost.

However, there may be some cases where increased taxes would tip the balance in favour of demolition, particularly if the existing historic building is small relative to what is permitted for development on the site, and is on a site where the bonus policy does not apply.

The Committee believes that tax reform should not result in the demolition of historic buildings. In the event that continued preservation would otherwise be uneconomic, Council should be able to provide a tax deferment which would write down the amount of tax paid by such historic buildings so that the incentive to change or demolish the building will be reduced.

Council's authority to implement this measure should be discretionary to ensure that the power to abate taxes in this way is, in fact, used only to avert a real threat to the historic nature of a building or its demolition. Such abatement of taxes should be granted, at the discretion of Council, on application by the property owner for a fixed number of years (3 years seems appropriate) and should be renewable, again at Council's discretion, on application by the property owner. The tax deferment would constitute a lien on the property, payable upon demolition of the historic building, or alteration which, in Council's opinion, is out of keeping with the historic character. Historic building easements in favour of the City might also be required as a condition for tax deferment.

In the Committee's view, a case-by-case review procedure such as that just outlined is the most appropriate means of dealing with any potential threat to historic buildings posed by tax reform. The Committee has requested staff of the Planning and Development Department to compile information on tax abatement programs respecting historic buildings in other jurisdictions. This information will then be available to assist Council in dealing with requests for abatements made pursuant to the proposed enabling legislation.

III

THE TAX SYSTEM

The tax system comprises an assessment base, which was the subject of the last chapter, and a procedure for levying taxes on that base, which is the subject of this chapter.

An extreme form of market value reform would have a single mill rate applied to full market value assessment in all classes of property. When it was found that a single tax rate on a uniform assessment base resulted in an inequitable distribution of tax burdens, Provincial proposals opted for a single tax rate applied to classes of property - each with different ratios of assessment to market value. The intent of these proposals was to retain the lower effective rate of taxation that exists on single-family residential property compared to the rates applied to high rise residential, or commercial and industrial property.

This classification system converts a uniform property tax into a series of different property taxes under one name. This is appropriate, for a number of reasons. Property is owned for different purposes. Property owners have different financial structures and ability to pay. Significant differences exist both in the markets and in the methods used by assessors for determining value in various property classes. Surely, private homes need not necessarily be taxed in the same way as residential property owned for the business of renting apartments, nor rental apartments in exactly the same way as commercial premises, any more than corporate and personal incomes need be levied identically.

As noted above, past Provincial proposals used a single mill rate for all properties and determined the taxes on different property classes by varying the ratios of assessment to market value for each class. It would be possible to achieve the same distribution of taxes by keeping the assessment to market value ratio constant and varying the mill rates between classes, or even by varying both the assessment to value ratios and the mill rates between classes. In fact, the City's current tax system closely resembles the latter circumstance; it has two mill rates - commercial and residential - and different average assessment-to-market value ratios for several classes of property.

The ability of the taxpayer to understand the calculation of his tax bill is an important consideration in choosing the appropriate tax system. A system which fixes the assessment at market value and varies only the mill rate between classes would appear to be the simplest system to understand. An alternative system which fixes assessments at varying percentages of market value and levies a single mill rate is less simple to the extent that varying assessments to value ratios are more difficult to grasp than varying mill rates. In any event, the taxpayer should have, included with his tax bill, information on his assessed market value, the mill rate (or mill rates if these vary between property classes) and the assessment-to-market value ratio if this is varied between property classes. With this information, the taxpayer can see both how his property taxes are calculated and how his effective tax rate compares with that applied to other classes of property.

The existing system where both assessment to value ratios and mill rates vary is clearly the least understandable of the three types of tax system. The existing system further disguises the relative tax burdens among classes of property by not making public the average ratio of assessment to market value by class. Without this information, a taxpayer cannot determine his effective tax rate (his mill rate times his assessment factor) relative to other classes of property.

A system which fixes assessment to market value ratios and varies the mill rates between classes would seem to offer flexibility for local tax policy since the local municipality is responsible for setting mill rates. Currently, however, the difference in mill rates between commercial and residential property classes is established in The Municipal Act which thus takes away the flexibility of a multiple mill rate system. In the case of a system which

fixes a uniform mill rate and varies the assessment to market value ratio, the Provincial Government holds the responsibility for establishing assessments and varying the assessment to market value ratios between classes. Flexibility could be built into this system by provisions for the City to negotiate with the Province on changes in the assessment to market value ratio for specific classes of property. Ideally, these negotiations would take place at the City's request but, failing that, could be legislated to take place on a periodic basis. This is discussed in Section 6.

The establishment of any of the above property tax systems is a three-step process. First, property classifications must be identified. Second, procedures and criteria must be developed for changing relative tax burdens amongst classes of property to ensure that such changes are made fairly and responsibly. Third, initial tax burdens must be established - initial mill rates in the system where one assessment to market ratio is fixed, initial assessment to market value ratios in the system where one mill rate is fixed, or both mill rates and assessment to market value ratios where both are allowed to vary between property classes.

IV

PROPERTY TAXES AND INCOME

1. Introduction

The Committee's principal concern, in examining the relationship between property taxes and income, is that property tax reform should not aggravate the burden borne by low- and moderate-income individuals and families, which, in some instances, is already very substantial. In reaching this conclusion, the Committee had to take into account the view that the property tax most closely resembles a form of partial wealth tax, and, as such, could be considered progressive.

In dealing with this proposition, three further considerations seem important. First, except in the case of owner-occupied residential properties, property tax burdens are shifted to some degree by property owners onto others, for example, onto tenants in residential buildings or onto consumers of goods and services produced on commercial property. Through this process, the final distribution of property tax burdens may relate in no way to the distribution of wealth, whether in real property form or any other form. Secondly, property tax does not apply to many forms of wealth - namely all assets other than realty property, and is thus very narrowly based to be regarded strictly as a wealth tax. Thirdly, the property tax is an imperfect tax on wealth even in real property form, since property owners must pay taxes on the full assessed value, not on his equity in the property.

These qualifications to the view of property tax as a wealth tax lead to the conclusion that such a view should not block assistance to lower income households and that ability to pay should be an important consideration in determining property tax reforms.

There have already been several measures taken to relieve property taxes for low- and moderate-income households, including the City's long-standing partial graded exemption, the Ontario Property Tax Credit Program and the Provincial property tax grant program for seniors. The previous Federal Government's tax credit program was also aimed at this objective to some degree.

The City's partial graded exemption by-law affects 45,631 residential properties whose building assessment is less than $4,000. It was established in 1922 to ease tax burdens on low- and moderate-income families by reducing taxes on lower-valued properties. Today, the partial graded exemption is a relatively inefficient means of easing tax burdens for lower-income households, since it benefits many higher-income households who live in homes receiving the exemption and it does not benefit lower-income households who live in homes not receiving the exemption. Given these problems, the partial graded exemption should be replaced by an improved property tax credit scheme that would relate property tax relief directly to income rather than indirectly through property values. Until that scheme is implemented, however, the partial graded exemption should be retained to continue providing tax relief for many low-income households who do occupy qualifying residences.

The Provincial tax credit program was originally designed to ease tax burdens for all low- and moderate-income households, by providing a credit of a certain proportion of property taxes paid, reduced on a sliding scale with income. In the 1980 Provincial Budget, for senior citizens only, the credit was replaced by a property tax grant of full property taxes up to $500 annually, which is not related to income. The credit program which remains applicable to non-seniors does not sufficiently relieve the existing tax burden on low- and moderate-income households in the City, nor would it relieve the impact of tax increases for low- and moderate-income households following a market value-based property tax reform. The Committee recommends modifications to provide the necessary tax relief for these households and holds the view that reassessment to market value should not take place until these modifications are carried out at the Provincial level.

The previous Federal Government proposed a property tax credit scheme that is similar to the Province's new property tax grant for senior citizens. The Federal scheme would have paid a flat $250 annually to owners of homes. It was not related to income, nor was it applicable to renters. This scheme died when the Conservative government was defeated. The Liberal government has not taken any initiative to date in the field of property tax relief.

2. The New Property Tax Grant for Seniors

In the 1980 Budget, the Province introduced a new property tax relief program for seniors. It will provide grants to refund the first $500 of property tax paid by owners and the first $500 of estimated property tax paid by tenants (based on 20% of rents). Either the claimant or the spouse must receive an Old Age Security Pension to be eligible for the grant. The grant will be paid to seniors regardless of their income.

For most seniors in the City, the full $500 Provincial grant will be received in 1980, while the full effect of tax shifts under City reforms will be felt during a future phase-in period. Seniors whose property tax bills exceed $500, before and after property tax reform, will bear the full impact of any increases or decreases in property taxes resulting from tax reform. Seniors whose property bills are below $500, before and after property tax reform, will have any change in their property tax bill fully offset by corresponding changes in their Provincial grant. Seniors whose tax bills are below $500 prior to reform but are increased, as a result of tax reform, to above $500, will have that portion of the increase below $500 offset by an increase in their Provincial grant. Similarly, seniors whose tax bills are reduced by property tax reform from above $500 to below $500 will have that portion of their decrease in taxes which is below the $500 level offset by a corresponding decrease in their Provincial grant.

Again, it is worth noting that even those seniors who bear the full impact of changes resulting from property tax reform (those with tax bills over $500 before and after reform), will already have had their effective tax bill reduced by the $500 Provincial grant. Therefore, if Provincial and City reforms are viewed as a package, seniors are likely to be better off than they were prior to the implementation of these changes.

3. Restructuring the Provincial Credit for Non-Seniors

The Provincial credit applicable to non-seniors does not sufficiently relieve the existing tax burden on low- and moderate-income households. Furthermore, it will do little to relieve any increases in tax for these households resulting from market value reform and the removal of the partial graded exemption. Market value reform and the removal of the graded exemption in the single-residence class would have led to increases in property taxes for 49,498 properties (57%) and decreases for 37,238 properties (43%), if implemented in 1979.

It is of particular concern that properties valued at less than $50,000 in 1975 are more likely to experience increases than decreases, whereas properties valued at more than $50,000 have greater likelihood of a decrease than an increase. The net effect, according to data supplied by the Ministry of Revenue, is that the over $50,000 properties would pay $2.7 million per year less after reassessment than under the present system, whereas the under $50,000 properties would pay $2.7 million more. Since total taxes paid by the latter group amounted to only $21 million in 1979, this shift would mean an average 13% increase for these properties. These calculations are based on the assumption the extra revenues collected as a result of removing the graded exemption by-law would be used to reduce the effective tax rate for the single-residence class, as is proposed by the Committee. The increase for this class would be higher if the extra revenues were used to reduce the effective tax rate for all classes of property rather than just the single-residence class. Further discussion of these effects is in Section 11 of this report.

The Committee will not recommend implementation of market value reform and removal of the partial graded exemption by-law until the Ontario tax credit program for non-seniors has been modified to offset to a substantial degree increases in tax for low-income households. The following actions would ensure that property tax relief is paid to those who really need it.

First, the tax credit system should be based on household income, not on individual income. Such a change would require changes in Federal income tax procedures to combine the incomes of spouses for the purpose of verification. Because the credit is now based on only one income, single-income families receive substantially less tax relief than two-income families with corresponding total family incomes. Once appropriate allowance has been made for the extra expenses of a two-income household, such as child care, there seems to be no reason why this discrimination in favour of two-income families should continue.

Second, as suggested by the Blair Commission in March, 1977, there should be a change in the definition of income from "taxable income" to "total income less personal deductions", to prevent taxpayers with very high incomes who take advantage of tax shelters from also taking advantage of the tax credit program. This suggested change is significant because voluntary deductions, such as RRSP's, Canadian Film investments, and MURB's, have the effect of reducing taxable income and thus increasing entitlement for credit while not arguably reducing ability-to-pay.

Third, there should be a maximum property tax eligible for the credit to make it clear that the credit will not apply to the full value of relatively expensive properties and thus reduce the incentive for misdirection of assistance inherent in an open system. The existing credit program has a ceiling of $500 on total credits paid out. Persons owning houses worth over $200,000 could be receiving the maximum credit of $500 if their current income is less than $10,000. It is recommended, therefore, that the $500 ceiling on total credits paid out be replaced by a $1,000 ceiling on property taxes that can be claimed for credit.

Fourth, the method of calculating Provincial property tax credit for tenants should be revised to provide greater protection to tenants from increases in property taxes which are passed on as increased rent. Under the existing system, except in the unusual circumstance where the annual rent is under $900, only two per cent of any increase in property tax is offset by the tax credit. This is because rent review procedures permit a dollar increase in rent per dollar increase in property tax, and the Provincial credit relieves only 2% (10% of 20%) of the dollar increases in rent. The system should be revised so that the property tax credit for tenants is based on actual property taxes allocated to the unit, rather than on 20% of rent. This would allow lower-income tenants to claim the full increase in property taxes resulting from reassessment and make them eligible for the same degree of offsetting tax credit that is applicable to lower income owners.

Fifth, the present method of calculating property tax eligible for credit ($180 plus 10% of tax) should be changed, in accordance with the principles encompassed in the report of the Blair Commission, to increase substantially the percentage of property taxes eligible for credit, in combination with an offsetting reduction in credit related to income. Such a system would give greater assurance that low-income taxpayers are receiving the support they need and that they would be reasonably insulated against tax increases which may result from tax reform. The Committee suggests that the specific formula proposed by the Blair Commission can be improved upon by adopting a uniform percentage of property tax eligible for credit and a uniform percentage of income to be deducted, rather than the somewhat complex Blair proposal of having varying percentages of tax eligible for credit according to income.

The following table shows the impact of reassessment on a representative household under the existing credit formulation, and under an alternative formulation based on 90% of tax less 5% of income, adjusted for standard exemptions and deductions. An increase in gross property tax from $400/yr. to $800/yr. is assumed to show the effect of a severe tax

shift; it is expected that the large majority of low-to-moderate income households would encounter shifts less severe than that assumed here. The figures in the table apply to a three-person household, one child under 16, with $10,000 per year gross income, all from employment of one income-earner, based on 1980 tax values.

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Table 2

Impact of Existing and Alternative
Tax Credit Programs on Shifts
In Gross Property Tax

A.	Existing Credit/Initial Tax	
	Gross Property Tax	$ 400
	Credit	145
	Net Property Tax	$ 265
B.	Existing Credit/New Tax	
	Gross Property Tax	$ 800
	Credit	185
	Net Tax	$ 615
C.	Alternative Credit/New Tax	
	Gross Property Tax	$ 800
	Credit	532
	Net Tax	$ 268

V

PROPERTY CLASSIFICATIONS

The process of deciding how many separate classes of property should be established involves trade-offs between increased flexibility and sensitivity on the one hand and increased complexity and uncertainty on the other. The Committee has taken a conservative approach to the identification of property classes. In fact, all of the major distinctions proposed are to some degree reflected in current assessment practices.

Residential, commercial and industrial activities are each substantially different from one another in terms of their economic and physical characteristics and in terms of their relationships to the City's land use and planning policy objectives. Accordingly, a classification system that distinguishes these three uses at least should be recommended. Possible further distinctions are examined below.

1. Residential

The residential property market can be divided into identifiable sub-markets according to: the likely tenure of the occupants; the built form of the structure; the ease of converting back and forth between rental and ownership tenure; and, the type of ownership.

Data provided to the Committee by the Province indicate that the average market value of individual units in multiple rental residential properties seldom exceeds $30,000 in 1975 values. Similar condominium units in the City sell for substantially more. This difference is highlighted when a building is converted from rental to condominium and then sells for significantly more as individual units than its value as a rental property. Clearly the market for rental property is distinct from the market for owner-occupied property, even where the built form is the same.

In terms of built form, the single-family house and the high rise apartment building are at opposite ends of the spectrum. The market for single-family homes is obviously quite different from the market for large multiple-unit residential buildings. At the same time, small multiple-unit residential buildings in "house-type" built form will be subject to different influences than large multiple-unit buildings, because the former has relative ease of converting between single-family and multiple occupancy. The tendency of small (six-plex or less) buildings to be partially owner-occupied points to equity considerations that may distinguish between small and large multiple-unit properties.

The different relationship between the occupant and the taxing authority is also significant. In the case of a single-unit owner-occupied home, the relationship with the government is direct: if property taxes go down, the occupant benefits; if they go up, the occupant experiences the auditional costs. In rental units, the relationship between the occupant and government is indirect: increases or decreases in property taxes may be absorbed by the landlord or passed on to tenants to varying degrees, depending on market conditions.

Finally, large apartment buildings tend to be owned by large corporate investors; small buildings are more often owned by individuals.

These factors suggest that the residential property class should be divided into three sub-classes.

- single family (including owner-occupied condominium units but excluding rented condominium units);
- small multiples (characterized by small operating scale, relative ease of converting to single family occupancy, a high degree of owner occupancy, and in many cases a "house-type" built form); and

- large multiples (characterized by large operating scale, very limited owner occupancy, corporate ownership, relative difficulty converting to single-family occupancy).

The appropriate dividing point between the "small-multiple" and "large multiple" classes is a matter of judgement. A distinction between buildings with six or fewer units and buildings with seven or more units commends itself on built form grounds.

Three such classes would divide the total of 249,000 residential units in the City into three approximately equal-sized groups of 86,000 in single units, 80,000 in buildings with two to six units and 83,000 in buildings with seven and more units. These three classes are currently assessed on average at approximately 8%, 9% and 22% of their 1975 values, respectively.

Current assessment practices appear to distinguish between "house-form" multiples and "non-house-form" multiples to a significant degree but do not appear to treat single-family homes and "house-form" multiples substantially differently.

2. Commercial

The most commonly suggested distinction amongst commercial properties is between "small" and "large" properties. There is a specific "small" versus "large" distinction in the business tax system as it affects retail businesses, although it relates to the occupant of the property rather than to any of the property's physical characteristics. Distinctions in the realty tax, however, should be based on physical characteristics and very broad use categories.

The question facing the Committee was whether or not there is a physical size criterion which has a clear enough meaning for City policy to subdivide the commercial category into "large" and "small" categories. The City's special concern for strip commercial areas justifies such a distinction. Properties in commercial strips are usually small, and most businesses are independently-owned and operated. Their profitability is often highly sensitive to changes in cost, including tax increases. Commercial strips are very different from other forms of commercial development such as high rise office towers and major shopping complexes. Therefore, it is proposed that commercial properties be divided into two categories: one "small commercial" class to apply largely to commercial strips, and the other a "large commercial" class to apply to other types of commercial properties.

The basic definition of "small commercial" would be a building with height of no more then seven storeys above grade and with commercial floor space of no more than 10,000 square feet. The seven-storey height limit would accommodate the form of development encouraged along strips by currently proposed Official Plan and Zoning By-law density provisions, but would not put commercial space included within high rise apartment complexes in the "small commercial" class. The 10,000-square-foot limit is large enough to accommodate small office buildings and most types of stores that typically locate in commercial strips. Larger chain supermarkets, on the other hand, would fall in the "large commercial" class due to their floor area.

Current assessment practices reflect a similar distinction. The average ratio of assessed value to market value for larger commercial properties is approximately 25%; for smaller commercial it is around 12%. Further investigation is being undertaken to ascertain whether alternative distinctions to floor space and building height could be made with respect to the small commercial class so that the beneft of reduced taxes for this class accrues to genuinely small businesses.

With respect to commercial properties, the Committee has learned that vacant commercial buildings in the present system are assessed as commercial property but taxed at the residential mill rate. Under the proposed system, buildings would be classified and taxed on the basis of normal and permitted use without reference to whether they are occupied or vacant at the time they are assessed.

3. Industrial

From the perspective of the City's planning policies, it would be desirable to recognize "industry" as a distinct property category. The distinct nature of industry is already recognized in current assessment practices.

The average ratio of assessed value to market value in this class is around 28%, although there is a large range around this average figure, from 9% to 40% in one sample of 60 industrial properties in the City of Toronto. Variations in this ratio do not appear to be related to the size or age of the industrial property in any systematic manner.

Defining industry as a separate property tax class would formalize present assessment practices and allow the possibility of bringing City industries' tax burden in line with other classes in the City and with other industrial areas in the Region.

4. Vacant Land

Vacant land is currently assessed as if it were residential regardless of its zoning or potential use. The Committee sees no justification for this practice. Vacant land should be assessed at its market value and classified for tax purposes in the land use category consistent with its zoning designation which carries the highest mill rate.

5. Government, Institutional, Church, Cemetery, Private School, Charitable and Other Property

a) General Characteristics

All property which does not fall under the residential, commercial or industrial category should form a separate residual category. Much of the property in this residual category is either partially or totally exempt from taxation. Property owned by Provincial or Federal Government typically provides some compensation in the form of grants in lieu of taxes.

b) Exempt Property

The Committee has considered the distinctions within this category between exempt and non-exempt property together with the relevant Provincial studies and reports. With respect to Provincially and Federally-owned or funded property, the Committee shares the view of all previous studies that the extra burdens imposed by the uneven distribution of Federal and Provincial properties should be acknowledged by making all such property taxable. Recognizing that it would be undesirable and unrealistic to recommend that such a policy be implemented in the City alone, the Committee recommends that the Province increase the grants-in-lieu to cover full taxes on all of its owned and funded properties.

Although previous Provincial studies call for the taxation of municipal property, the Committee sees problems in such a change. Taxation of High Park, for example, would result in a significant transfer of money by the City to Metro despite the fact that the park is enjoyed by people throughout Metro, who pay nothing to the City for its maintenance. City taxpayers might very well ask why they should pay Metro for the privilege of operating a facility from which taxpayers throughout Metro benefit. In any event, whatever the basis in equity for such a proposal, it could only be implemented Metro-wide and not in the City alone.

One inconsistency noted in the present system concerns the tax treatment of T.T.C. property, namely that rapid transit property is exempt while all other T.T.C property is taxed. This inconsistency could be resolved in one of two ways. T.T.C. property could be taxed, along with the property of other agencies supported primarily by user charges. Alternatively, all T.T.C. property could be exempted from taxation as is the case with the other major component of the local transportation system, the roads system. The Committee feels T.T.C. property should receive similar treatment to that of roads and recommends that Council begin discussions to implement this change across Metro.

As to the remaining exemption categories, for churches, cemeteries, non-profit private schools, and charitable and non-profit properties, it makes little sense for charitable properties to receive a different property tax treatment in Toronto than received in North York, Kitchener or Chatham. If exempt status for such properties is to be changed, then the change should be Province-wide.

However, if taxed, charitable organizations may have to spend considerable energy seeking specific exemptions or larger local grants - energy that would be much better spent in pursuing their charitable goals. The Committee does not see any pressing need for changes in this area.

VI

PROCEDURES FOR ALTERING RELATIVE TAX BURDENS

A system of property classes has been identified in this report as the basis for a property tax system consistent with the City's general objectives for tax policy. The relative tax burden borne by each class is a fundamental element of tax policy. Procedures to change these relative class burdens, or shares, therefore, should involve a fair and open process where the results can be seen to be justified in terms of the City's objectives of fairness and equity.

It should be understood that the Committee is not attempting to determine a completely new set of class tax shares in abstraction from the existing system. There appears to be no practical procedure by which such an exercise could be undertaken and the distribution of burdens inherent in the existing system has at least the virtue of being the basis upon which many investment and location decisions have been made in the past.

The approach adopted by the Committee is to take the existing system as a starting point and reform it in an incremental manner to remove perceived inequities and support land use objectives. In principle, reforming the system to meet these objectives appears straightforward. In practice, it is more complex, both because determining who pays and who benefits as a result of changes in the tax system is not always a simple matter, and because it is often difficult even to define equity and land use objectives in such a way that unambiguous inferences for tax policy can be drawn.

The question of who actually pays will depend on:

1. which class of property is affected;
2. what are the prevailing market conditions;
3. whether the change is general or City-specific; and
4. other factors which affect a property owner's ability to pass on tax changes to others.

The difficulties in defining equity and land-use objectives require more detailed discussion.

1. Equity

Seemingly obvious judgements about what changes would be equitable can turn out to be quite complex. For example, currently the industrial property class is, on the average, taxed on a higher assessment to value ratio than other commercial and residential classes. This might suggest a reduction in industrial tax loads. However, if reductions for industry require tax increases for single residences, the equity argument may not be so clear.

Equity considerations may be further complicated by the different effects of tax changes on occupants (who are often tenants) and owners of property. As will be indicated in Section 7, it is difficult to ensure, for example, that a decrease in the tax share of the multiple-residence classes would actually provide any desired distribution of benefits between tenants and landlords. This difficulty is likely to affect a judgement as to the desirability of changing the tax share of these classes.

2. Land Use

Generally speaking, land uses whose tax burdens are increased will tend to be discouraged; and uses whose tax burdens are reduced will tend to be encouraged. However, the extent to which this occurs depends on a number of considerations. First, the importance of property taxes in locational decisions or the decisions of property owners to invest in and maintain their property may vary both among and within different classes of property. For example, certain industrial and retail strip activities located in the City may be very

sensitive to changes in their property taxes. On the other hand, in the large commercial office sector, property taxes may have little influence on the decision to locate or invest in office property.

Furthermore, the impact of changes in the relative tax burdens on different property classes may vary according to the locational requirements of the activities affected - whether they can locate throughout the Metropolitan area or need to be located within the City. With the more "footloose" types of activity, the impact of changing class tax burdens may depend upon whether the change applies to only the City or is Metro-wide. If the change is confined to the local level, then tax increases will decrease the relative attractiveness of investing in these types of activity in the City while tax decreases will have the opposite effect.

For activities which require a City location, the question of whether the change in inter-class tax burdens is local or Metro-wide is unimportant. Tax increases for these activities would generally be passed on to tenants. In certain commercial activities, the tenant may, in turn, be able to pass these increases through in the form of higher consumer prices. Tax reductions, on the other hand, would encourage owners to invest in and maintain property accommodating City-oriented activities and might result in rent reductions which could be critical to tenant businesses operating near the margin of profitability. In this light, protecting the "small" commercial class from increased tax burdens can be seen as an important part of the City's land use policy to maintain and encourage strip retail development. A similar type of land use planning argument could be applied to a favourable tax treatment of City-oriented industrial activities.

3. The Process of Change

The Committee has attempted to identify a process which allows the City to respond to future problems through changes in tax policy while recognizing that the authority to change the relative burdens of property taxes on different property classes must be subject to Provincial oversight.

This process envisages initiatives for changes in property class tax burdens being taken by City Council's Budget Review Committee, which would report to Council on the nature and reasons for any proposed changes. In preparing its recommendations, the Budget Review Committee would consult with the City of Toronto Board of Education and the Metropolitan Toronto Separate School Board. After approval by Council, the report would be sent to the Minister of Revenue for consideration and, if approved by the Minister, for implementation. The Minister might not approve of the proposals, however, in which case discussions should take place between the Ministry and the City to determine appropriate modifications, satisfactory to both parties. If this process fails to reach such a conclusion, then it is suggested that an Ontario Municipal Board Hearing should be held on the matter to permit a thorough and open examination of the points at issue.

The process would provide for such initiatives to be taken at annual intervals to allow Council to respond quickly to perceived problems.

4. Initial Class Shares Following Reassessment

As was noted at the beginning of this Section, the Committee considers it appropriate to take the existing set of class shares as a starting point, and to propose changes only incrementally as required to remedy perceived inequities and to support land use objectives. At present, there are two concerns which the Committee believes should be addressed. First, the substantial volume of commercial appeals since 1975 has inequitably increased the relative burdens of other classes over that period. Second, it appears that currently the average assessment to value ratio in the industrial class is higher than that applying to the large commercial class, a circumstance which is contrary to the City's land use policies.

Accordingly, the Committee proposes that the initial set of class tax shares following reassessment be those which existed in 1980, except that the distribution between industry and large commercial be further adjusted as required to leave the industry assessment to value ratio no higher than that of large commercial.

VII

MULTIPLE RESIDENCES

There is considerable variation in the ratio of assessed value to market value of multiple residence properties in the City. Market value assessment will thus cause substantial change in taxes on individual properties in the multiple residence classes. Implemented on the basis of 1975 values, reassessment would increase the taxes on 60% of the 2-6 unit properties and 25% of the 7+ unit properties (and reduce the taxes on 40% and 75% respectively).

Most of the units in these classes are, of course, rental units. The Committee has considered at length the question of whether tenants or landlords would be primarily affected by reassessment. The answer should depend on the extent to which assessments affect rents or profits. For example, does a building which is significantly over-assessed relative to its class have comparatively high rental rates, a comparatively low level of profit or some combination of the two?

1. Property Tax and the Rental Market

It must be recognized that, a rent controlled market exists and will continue to exist for the foreseeable future. The impact of tax reform on rents and profits under rent review will not be such as to eliminate all existing inequities. These inequities existed prior to the introduction of rent controls, and to a degree are frozen in place by the rent review process. For example, upward and downward tax shifts cannot affect profits in cases where there is a rent review hearing, since the review procedure aims to leave profits fixed; all adjustment in these cases will be on rents, regardless of whether past assessment practices distorted profits or rents the most.

Ideally it might be desirable to determine precisely, through study, what the effects of past assessment practices have been on landlords and tenants on a property by property basis and correct any distortions in a simultaneous review of rents and taxes. As a practical matter, however, this course of action is impossible, and the only realistic approach to the problem appears to be to accommodate to the reality of the rent review process as it has been developed over the past five years, and to see whether rent-review adjustments to tax reform can bring about an acceptable outcome.

2. Consideration of Rent Review Procedures

The Committee is concerned about two possible effects of reassessment on rent-controlled buildings. These are: (a) the impact on low-to-moderate-income tenants; and (b) the possibility that tax reform will result in a shift of aggregate tax burdens from landlords onto tenants.

Rent review hearings occur where building owners seek rent increases in excess of 6% annually, based on allowable pass-through of cost changes. Normally only a small minority of rental units in the City go to a hearing in any one year.

For buildings that go to a hearing, the impacts of reassessment (favourable and unfavourable) will be felt entirely by tenants, since the principle followed in the hearing is to hold profits fixed: by definition, a zero impact on the landlord.

The major concern in this process is the potential impact on lower-income tenants in buildings with tax increases. The Committee has taken the position that lower-income households - whether owners or tenants - should be protected against significant tax increases resulting from property tax reform and has proposed improvements to the Province's tax credit scheme to ensure this result. The Committee has further taken the position that tax reform should not be implemented until these improvements to the credit

are implemented. These policies would ensure that whatever other impacts are felt in the rental housing sector as a result of tax reform, there would be no significant adverse impact on lower-income tenants.

The Committee's second concern is the possibility of a shift in aggregate tax burdens from landlords to tenants. This concern arises because, in considering both buildings that go to a hearing and those that do not, there is some likelihood that buildings with tax decreases will mostly not have hearings (because tenants do not have the right to initiate applications for less than 6%), while buildings with tax increases mostly will have hearings (because landlords are more aware of their rights). This would mean that for some time at least, landlords would absorb the tax decreases and tenants the increases, resulting in a net transfer of burdens from landlords to tenants.

The Committee does not believe that tax reform should lead to such a result, and consequently, has considered means to reduce its likelihood. The most effective practical means of doing this would be for the Province to pass special legislation adjusting the rents of all rent-controlled buildings by the amount of the tax changes - whether up or down. This adjustment would require submission of rent rolls to the Province in order to determine the appropriate percentages on a building-by-building basis. Tenants should be able to examine these figures, and to request a formal rent review hearing if they are not satisfied that the results were correct.

Given this program, and given an improved tax credit to protect lower-income tenants from adverse impacts, the Committee believes that the overall effect of property reassessment on multiple residences under rent control would be acceptable.

3. Buildings Not Subject to Rent Review

Rent review regulations exempt the following categories of multiple residence accommodation: privately-owned rental buildings which were first occupied in 1976 or later, privately-owned units which rent for $750 or more per month, and all publicly-owned rental accommodation (for example, public housing or municipal non-profit housing). Limited Dividend buildings - privately-owned but under CMHC-enforced rental agreements - also appear to have the exempt status of publicly-owned buildings so far as Ontario rent review is concerned.

In the case of privately-owned exempt buildings, the impact of property tax reform is likely to be felt primarily by landlords. Landlords of such buildings are permitted to charge what the market will bear. The rent level which the market will bear is not affected by tax measures which raise tax levels on some exempt buildings and lower tax levels on others. This consideration suggests that profits, rather than rents, will bear the burden of adjustment to tax reform. However, most of the exempt privately-owned buildings built to date were developed under the Assisted Rental Program (1976-8). These are subsidized to rent at market levels, and will experience no adjustment to either rent or profit, but only to the degree of subsidy going to particular buildings.

In the case of publicly-owned buildings, a large proportion of tenants - all those in public housing units and approximately 25% of those in non-profit units - pay geared-to-income rents. Tax reform cannot affect these rents, but only the degree of public subsidy going to various buildings. This result seems entirely appropriate to the Committee.

Units built under the pre-1978 non-profit programme which are not geared-to-income must pass through all tax changes, increases or decreases, into rents, as unit rents in this program were related to costs. Newer non-profit units, however, have rents related to market rents ("low market" rents) and cost shifts, including tax changes, are not necessarily passed on; the impact of tax reassessment will generally be on the degree of subsidy going to particular buildings rather than on rents. These different impacts seem appropriate to the Committee in the sense that the impacts are consistent with the intent of the programs under which the buildings were constructed.

Notwithstanding the fact tenants are unlikely to have their rents reduced in buildings of these types if taxes decrease, notices should be sent to tenants clearly stating the amount of tax change affecting their buildings. The City should undertake a program to inform tenants of the tax changes.

4. Changes in Aggregate Class Shares Affecting Multiple Residences:

Previous reports dealing with assessment reform, for example the Blair report, have recommended major decreases in the total property tax burden carried by the 7+ unit multiple-residence class - via a shift onto the single-residence class and the small multiple (2 to 6 unit) class. The Committee would not wish to recommend a substantial decrease in the tax share of multiple residences without ensuring that tenants would benefit at least to some degree. As demonstrated in this chapter, this is difficult to do. Even if tax reform is implemented without a major reduction in the tax shares of these classes, many individual properties will still experience tax decreases. This will provide the City with experience of the effectiveness of pass-through mechanisms intended to benefit tenants, as discussed previously in this section.

In Section 6 of this report, procedures were outlined for the review and future modification of the share of total taxes borne by the various classes of property. The Committee believes that proposals to reduce the share of tax burdens borne by the large multiple-residence class should be evaluated when the first such review takes place, having regard for actual experience with mechanisms designed to ensure tenant benefit.

VIII

PHASE-IN OF TAX REFORM

The Committee considered the question of whether new assessments should be implemented in a single step or phased in gradually.

Within each property class, there are many properties now markedly under-assessed relative to the class as a whole. Ending the tax break these properties have enjoyed will require substantial adjustments. Accordingly, the Committee believes that a reasonable time should be allowed for these adjustments to take place. Even smaller upward shifts, so far as is possible, should be moderated since they would accompany annual increases in the mill rate which affect all properties. The Committee has concluded that five years would be an appropriate phase-in period. All upward tax shifts should be phased in over this period: each year, taxes on the properties affected should move a further one-fifth of the way from the old basis to the new.

The Committee considered a number of alternative means of financing the phase-in procedure just outlined. Two general methods appear to be feasible. The first reduces downward tax shifts on the same schedule as upward shifts - that is, all shifts whether up or down would be phased in smoothly over five years. At all times, the revenue gained from reducing the downward shifts would exactly balance the revenue lost from reducing the upward shifts. The second method would involve immediate implementation of the downward shifts in full, with the funds required to finance the deficit resulting from the phasing of the upward shifts being raised by means of general increases in mill rates.

The choice between the two alternatives is a difficult one. In comparing them, it is clear that the option of phasing in decreases places the burden of phase-in costs on the very properties which previously have been most overtaxed, whereas resorting to mill rate increases will spread the burden more uniformly.

The latter immediate decrease/phased-in increase option does require substantial amounts to be raised by general mill rate increases. The residential property classes alone would require over $12 million in the first year. This amount would be reduced by approximately $3 million each year as the phased-in increases on under-taxed properties take up the slack. Approximately a 6% increase in the residential mill rate would be required to offset the $12 million dollar revenue shortfall in the first year. It should be kept in mind that the total revenue from property taxes on residential properties as a whole remains unchanged. The distribution of taxes among specific properties is all that is being affected.

Phasing in both increases and decreases in taxes would leave most properties which are near the centre of the assessment ratio distribution largely unaffected. This method does, as noted, place all the burden of phasing in increases on properties which were previously over-taxed and which would otherwise have substantial tax decreases resulting from reform. Since there will still be a tax decrease for such properties, however, the Committee believes that the owners concerned will be able to adjust readily. Accordingly, the Committee recommends this method of phasing in all downward tax shifts on the same schedule as the phase-in of upward shifts. Under this method, it will be possible to phase in even relatively small shifts as well as larger ones.

IX

BUSINESS TAXES

The business tax system differs from the rest of the property tax system in two major respects: it is a tax on occupants rather than on owners; and the tax rates differ significantly depending on relatively fine distinctions in the type of use to which a property is put. It has often been suggested that the business tax be eliminated because of the belief that the special characteristics of the business tax impose excessive administrative costs. The Committee considered this issue and the question of what rate differentials, if any, should be retained in the business tax schedule.

1. Collection Costs

The Committee found that, contrary to general impressions, the business tax does not impose a heavy administrative burden on the City and it enjoys a very high degree of voluntary compliance.

In 1978, total costs relating to the business tax - including administration, and reductions in collectable amounts when businesses wind up during the year and simple tax avoidance - came to 0.52% of the business tax levy.

2. Differentials

Business taxes are levied separately from real property taxes, but at the same commercial mill rate. The assessment to which business taxes are applied is a percentage of the assessed value on the unit occupied by a business, where the percentage is based on the nature of the business. The business tax is paid by the occupant.

Section 7 of the The Provincial Assessment Act sets out the following six rates of business assessment for different types of use.

Current Business Assessment Classes

% of Assessment for Business Tax	Land Use
140%	Distillery - Alcohol for consumption
75%	Distillery - Alcohol for industrial use Wholesale merchant Brewer Insurance Company Loan Company Trust Company Express Company - rail, steamboats, other boats Land Company Loaning Land Corporation Bank or any other Financial Business Chain Store - (more than 5 retail outlets) - distribution premises, storage and warehouse facilities, offices

60%	Manufacturer Flour Miller Maltster Concentrator or Smelter of ore or metals Mining Company
50%	Chain Business selling goods & services (more than 5 outlets in Ontario) - selling premises Professional Offices - lawyers, doctors, dentists, veterinarians, engineers, advertisers, accountants, architects, construction specialists, agents for financial, commercial and other business. Radio or Television broadcasting station Publisher and printer Photographer Department Store
30%	Telegraph or Telephone Company Transportation System, except pipelines & highways Transmission Company of water, heat, electricity Pipeline Company Any business which is not specifically classified elsewhere.
25%	Car Park

Given that the original rationale for the scale seems to have been based on specific social attitudes and policies (disapproval of distilleries and approval of car parks) which are now by no means universally held, the Committee decided to start with the assumption that rates should be uniform and examine circumstances which might justify departures from uniformity.

With two possible exceptions, the Committee found that while there are wide variations in the types of businesses carried on in Toronto, there does not appear to be any obvious justification for different business tax treatment.

The two exceptions considered were small retail (selling goods and services) and manufacturing. In the case of manufacturing, the Committee came to the conclusion that the nature and scope of financial assistance to industry should be subjected to further study in the context of an industrial policy for the City.

In the case of small retail businesses, the Committee concluded that it would be justifiable on the basis of equity as well as on the basis of land use objectives to give special treatment to this class of use in the form of business taxation at half the normal rate.

The criteria for qualification as a small retail business are proposed as follows:

a) the business should have fewer than six retail outlets in Ontario; and
b) outlets should have 10,000 square feet or less of selling space.

As in the Property classifications section (section five) above, further investigation should be undertaken to refine the distinction between large and small retail classes so that the benefit of reduced taxes accrues to genuinely small retail businesses.

The estimated tax shifts that would result, given present assessments and raising the same dollar amounts from the business tax, are outlined below:

Property Category	Share of Business Tax Collections under Current Schedule of Rates	Share of Business Tax Collections with Flat Rate of Business Tax & ½ Rate for Small Business only	Shift
Distilleries	0.19%	.07%	- 63%
Financial, Wholesale, Breweries	29.96%	23.30%	- 22%
Industrial	17.09%	16.62%	- 3%
Professional and Retail Chains	26.50%	30.92%	+ 17%
Small Retail & Small Commercial	23.65%	22.99%	- 3%
Car Parks	2.61%	6.10%	+ 134%
	100.00%	100.00%	0%

Notes:

1. Figures based on 1976 data.

2. The category "retail and small commercial" is a residual category containing all commercial properties not included in the other five categories. It is somewhat larger than the "small retail selling goods and services" category, which is the intended beneficiary group receiving the proposed preferential business tax rate. Because of the limitations on data available, the above table only gives an approximate picture of tax shifts that would occur in the proposed system.

X

THE ASSESSMENT REVIEW PROCESS

Without comprehensive tax reform, the City's commercial assessment base will undoubtedly be subject to continued erosion resulting from private appeals and the commercial assessment review process generally. This erosion will have a negative impact on taxpayers in the residential and industrial classes, who must contribute through higher mill rates to make up for lost revenues. Erosion of the City's commercial assessment base is of concern not only to City residents, but - owing to the Metropolitan financial arrangements - to residents of Metro generally. It would be unfortunate if the City were obliged to adopt a reform package with undesirable features on the basis that there was no other way to contain erosion of the commercial assessment base. Accordingly, it seems appropriate to consider carefully the potential scope for independent City action in the assessment review field.

There are four major types of commercial assessment review cases. These are:

1. Cases in which a property owner initiates an appeal of existing assessment which is ruled upon by an assessment review court, the county court or by the Ontario Municipal Board.

2. Cases in which a property owner initiates an appeal of existing assessment which is determined through negotiation between the property owner and the Ministry of Revenue.

3. Cases in which a revised assessment is placed on a newly-developed or improved property through negotiation between the property owner and the Ministry. In these cases, no formal appeal proceedings are initiated.

4. Cases in which the Ministry, under the provisions of The Assessment Act, alters the assessment on a commercial property to achieve consistency with the assesments on similar property in the vicinity.

The City's Role in Assessment Review Cases

The City has legal standing in all assessment appeal cases and seemingly has the consequent right to participate in negotiations between the Ministry and taxpayers in the City. Since the takeover of the assessment function by the Province in 1970, the City has not usually exercised this right, relying instead on the Ministry to safeguard the City's interest in assessment matters. Nonetheless, assessment is the City's main revenue-producing asset, and the City has a responsibility to be aware of how that assessment is being maintained. There are possible advantages in a more direct City role in each of the four types of assessment review cases.

In cases of the first type the property owner appears before the assessment review court, the county court or the O.M.B. to argue for a reduction in assessment and the Ministry appears to argue in support of the existing assessment. It is likely that in many cases of this type, the City would adopt an overall strategy along the same lines taken by the Ministry, supporting the existing assessment through the testimony of expert witnesses and production of other evidence. The effect of an independent City role would be simply to add weight to the Ministry's case.

In the second type of case, involving negotiations between the property owner and the Ministry, it is usually necessary to consider the value of an immediate settlement in relation to possible gains to be made through further litigation. In some instances, the City might wish to pursue a different course in these matters than the Ministry. However, the City has not been involved in such negotiations, and a number of major assessment

cases in the City have been settled resulting in substantial reductions in assessment. As the City's interests are obviously being affected, it seems reasonable for the City to involve itself in future cases of this type, at least for a period of time, to discover the factors involved in determining these settlements and to be assured that the City's interests are taken fully into account.

The third type of case, which also entails negotiation, differs from the second in that formal appeal proceedings are never initiated. Typically, it appears that the developer of a new project (or improvement to an existing property) may approach the Ministry as the project proceeds through the development process; complex and lengthy discussions may follow as the two parties put forward different approaches to valuation of the project. There is always a possibility that no agreement will be reached, in which case the Ministry will unilaterally determine an assessment which the developer may appeal. However, negotiated initial settlements respecting major commercial projects have been successfully concluded in many cases. Again, it appears that the City might benefit from being involved in such major negotiations. While the City is automatically notified of cases where an existing assessment is appealed, it is not necessarily informed about discussions between the Ministry and the developer of a major new (or improved) project. A procedure of notice is required, therefore, before the City to can assume a direct role in negotiations of this latter kind.

Cases of the fourth type, involving Ministry-initiated assessments on some basis other than improvement of property, are unusual in the City. The Ministry of Revenue has market value assessment records that can be used to reassess all properties simultaneously. Rather than initiating reassessments itself, however, the Province has given municipalities the enabling legislation to initiate such a reassessment (through amendment of Section 86 of The Assessment Act). This would be the most efficient way for the City to solve the problem of under-assessed commercial properties. All properties would be reassessed in a single operation outside of the Assessment Appeals Court and other judicial forums.

As noted previously, however, the Committee will not recommend comprehensive reform on a market value basis until the recommended improvements in the Provincial property tax credit program are implemented. In the interim, it may be necessary for the City to initiate appeals of the fourth type as a means to mitigate further erosion of the commercial base. Outside of a market value reform, City-initiated appeals are the only way to achieve upward adjustment to the assessment of under-assessed commercial properties. Although such appeals would require the City to allocate some resources to developing an evidentiary basis for its appeals, there appears to be substantial potential benefit in terms of maintaining the commercial assessment base. Perhaps City-initiated appeals would lead, in some cases, to negotiated settlements; revenue gains would then not be delayed while action proceeded through the courts. It should be clear that, in adopting a program of actions on specific cases rather than a comprehensive reassessment of all properties, the City would have to follow objective and fair criteria (such as considering all properties which were under-assessed by more than a specified dollar amount) in selecting properties to be appealed.

It is important to note that the City could not and should not monitor each and every change in its assessment roll resulting from such events as new construction, alterations, demolition, subdivision, registration, and changes of use.

There is frequent contact between the Assessment Division staff and the City Finance Department in the course of assessing properties and collecting taxes. While the normal level of clerical errors and questions of judgment are encountered, there is no noticeable malfunctioning of the Assessment Division's ability to record changes on the rolls in a proper and timely manner. The comprehensive monitoring procedure needed in other municipalities do not appear necessary in the City of Toronto. In fact, even if there were serious malfunctioning, City auditing of assessment procedures would be more time-consuming and more costly than in other municipalities, since the City is divided into 95 assessment neighbourhoods, with an assessor for each neighbourhood and additional staff at the Regional Head Office - all dealing with some 134,000 assessed properties. One of

the many responsibilities of the assessor is to visit every property for which a building permit is issued. Another is to investigate information received from the tax-paying public on changes in use of properties. It would be extremely costly and probably unnecessary to recheck the daily work of the Assessment Division and given the current state of assessment, it is also difficult to apply mass statistical monitoring measures on City assessments to detect anomalies.

As a result, the City should not attempt a review of all changes to the roll, but restrict its attention only to those changes of major significance; for example, all those changes involving more than $1,000,000 of assessment. It is in these cases, where clerical errors and questions of assessor's judgment may be critical. An independent City role would further reduce the chance of clerical error and, more importantly, would make explicit the City's opinion on the conditions of settlement between the Assessment Division and the private taxpayer.

XI

PROPERTY TAX REFORM UNDER SECTION 86

The Province has amended Section 86 of The Assessment Act so that municipal councils can choose either to retain their existing tax system or comprehensively reform it through reassessment of all property, subdivided into specific classes. The amended legislation gives the Minister of Revenue substantial flexibility in prescribing the procedures to be followed in reforming the tax system of any particular municipality. For example, the Minister can make regulations specific to the City of Toronto which prescribe the number and nature of property classes and which prescribe the standards and procedures for equalizing assessment within these classes. However, the legislation sets two conditions which must be complied with. They are one, that the total assessment in each property class must not be altered and two, that the share of property taxes collected from each class must not change. These conditions are subject to some exceptions relating to errors on the roll, and additions to the roll made after the Section 86 impact analysis is complete.

It should be noted that while the original basis of Section 86 was implementation at the local municipality level, recent proposals have suggested that implementation be considered at the regional level. On the basis of preliminary data, it appears that within Metropolitan Toronto a regional Section 86 would lead to substantial increases in residential tax burdens in the City, and substantial decreases in commercial tax burdens. Substantial shifts in the opposite direction would occur elsewhere in Metro. City Council has indicated to the Metro Chairman and other Metro municipalities that it is opposed in principle to shifts of this nature. What follows in this Section pertains to Section 86 implemented locally. Further study of a regional Section 86 is being undertaken by the Province.

The previous sections of this report recommended reforms for the property tax system in the City of Toronto. Some of these reforms can be implemented under a Section 86 reassessment, while others would seem to require some amendment to the legislation. Some other reforms being considered are not covered by Section 86 of The Assessment Act but are compatible with it. Some, but not all, of these actions require amendments to Provincial legislation or regulations. This chapter discusses implementation of the recommended reforms for the property tax system in the City of Toronto and in particular the adequacy of Section 86 as an implementation framework.

1. Tax Reform Proposals Implemented by Section 86

The following are tax reform proposals outlined previously in this report which appear to be implemented under Section 86:

a) An assessment system based on current market values.

b) Current market values that can be updated regularly by request of City Council.

c) Establishment of the following classes and sub-classes of property for taxation purposes:

Class	Sub-Class
Residential	Single unit including condominium* 2-6 units* 7+ units
Commercial	Small* Large*

Industrial

Institutional/Residual

- (These classes have not been used in any of the ministerial regulations produced to date for Section 86 reform in other municipalities. There is nothing in Section 86, however, that would preclude creation of these classes by ministerial regulation.)

d) Vacant land assigned to classes based on its highest zoning designation.

e) A property tax system in which the ratio of assessed value to market value varies between (but not within) property classes.

f) Phase-in of increases and decreases in property taxes by equal steps over a five-year period.

g) Termination of the effect of partial graded exemption by-law No. 8611 on a property-specific basis, while continuing its favourable impact on the single-residence class as a whole. (Whether by-law 8611 remains on the books or not, it would be impossible to apply it to individual properties since there would no longer be the required distinction between building and land assessment following Section 86. Continuing the reduced class share for single residences as a group now resulting from by-law 8611, and which resulted in 1975, appears to follow from Section 86, but there is a potential legal difficulty discussed below.)

2. Tax Reform Proposals Potentially Inconsistent with Section 86

The following are tax reform proposals outlined previously in this report that may be inconsistent with conditions set out in Section 86 and, therefore, a legal opinion should be sought respecting the legal aspects of their implementation:

a) Provision for future redistribution of tax burdens among classes of property based on equity and land use considerations, through negotiations with the Province that are either initiated by the City or are part of a regular review process.

b) A single mill rate applicable to all classes of property as opposed to the existing two mill rate system. (For a single mill rate to collect the same share of taxes from each class, total assessments in each class need to be adjusted to reflect the present 15% differential between existing residential and commercial mill rates. These adjustments would seem to be inconsistent with the first condition in Section 86 that total assessments in each class not be altered. In addition, a single mill rate appears inconsistent with Sections 504 and 506 of The Municipal Act and Section 7(3) of The Unconditional Grants Act, which deal with the establishment of municipal mill rates.)

c) Continuing the favourable impact of the partial graded exemption on the tax share of the single residence class (see Item 9, above).

(With a single mill rate, the only way to fix the tax share of the single-residence class at its present level is to lower the residential assessment factor such that total residental assessment is reduced. Section 86 appears to require that the share of tax burdens borne by a property class and its total assessment remain unaltered by property tax reform. It seems impossible to remove the graded exemption and meet both of these conditions. The Committee's proposal is to meet the tax share stipulation rather than the total assessment stipulation.)

3. Tax Reform Proposals Not Covered By Section 86

The following are tax reform proposals outlined in this report which, though compatible with Section 86, are not covered by it, and which may involve changes to Provincial

programs and legislation affecting all municipalities, or creation of procedures and enabling legislation that are specific to the City of Toronto:

a) Improvements to the Ontario Property Tax Credit Program.

b) Uniform business tax rate, except for preferential rates for small commercial and possibly industrial properties.

c) Assessment of residential properties in a substandard state of repair as if they were not in a substandard state of repair.

d) Reassessment at the next assessment roll for renovation which alter load-bearing walls, increase (decrease) number of units or number of rooms or increase the livable floor area; otherwsie maintenace and repair to be reflected in assessment only in comprehensive reassessment years.

e) Council authority to permit special tax treatment for designated historical buildings under clearly stated criteria.

f) Grants-in-lieu from the Province to cover full taxes on all Provincially-owned properties.

g) Property tax exemptions for all T.T.C. property.

h) Special legislation to adjust rents to reflect changes in taxes for rent-controlled buildings.

Finally, the following are tax reform proposals that can be implemented without any changes in Provincial legislation or regulations:

a) Direct City involvement in the assessment review process, including initiation of assessment appeals on properties that are significantly under-assessed.

Impact of Section 86 on Single Residence Class

Section 4, on Property Taxes and Income, indicated that market value reform, if done on the basis of 1975 values, and the removal of graded exemptions causes a larger number of increases in tax within the single-residence class than decreases. Furthermore, these changes would cause a $2.7 million transfer of tax burden from the group of properties valued over $50,000 in 1975 to the group valued under $50,000. These shifts in tax would occur under Section 86 reassessment of the single-residence class using 1975 values.

The impact of reassessment on single residences was obtained from a study carried out by the Ministry of Revenue. The results of this study are shown in Tables 3 and 4 of this report. Information regarding other property classes was requested from the Province but has not yet been received. This information is part of the standard Section 86 "impact analysis" that is provided to municipalities by the Ministry of Revenue and which was requested by the Chairman of the Committee, Mayor Sewell, in his letter to the Minister of Revenue dated December 17, 1979. Tables 3 and 4 show the distribution of increases and decreases in tax by market value range and size of property tax change, if Section 86 reassessment had been implemented in 1979. The assumption underlying the study was that the class tax share of single residences would be at its 1979 level, rather than the 1975 level as is proposed by the Committee. Use of the 1975 class share would likely have reduced the increases and expanded the decreases somewhat, although not significantly.

Among properties valued at less than $50,000 in 1975, there are 29,894 increases (72%) and 11,800 decreases (28%). This compares with 19,604 increases (44%) and 25,438 decreases (56%) for properties valued at more than $50,000 in 1975. The consequent $2.7 million redistribution of tax burdens is of concern, since the available evidence indicates that a transfer of tax burdens from higher-value to lower-value properties means on the average a transfer of tax burdens from higher-income to lower-income households.

The present tax system embodies elements that make it more broadly progressive than a Section 86 market-value based system, at least so far as the single-residence class is concerned. These elements seem to be the result of informal assessment practices as well as the partial graded exemption. At the same time, however, the present system permits an unacceptable degree of inequity at the individual property level.

It seems appropriate for the City to seek reforms that carry over the progressive elements of its present assessment system, while removing inequities which result from a lack of uniformity in assessment practices. The Committee recommends using Section 86 procedures as a means to equalize assessments within the single-residence class only if the Province implements changes to the Ontario Property Tax Credit to effectively retain the broadly progressive elements of the City's present assessment system, while making them more precisely income-related. These modifications should offset to a substantial degree any increases in tax for low-income households. Section Four, on Property Tax and Income, suggested measures that could be taken by the Province with respect to the Ontario Property Tax Credit to ensure the attainment of the above objectives.

Another fundamental consideration in the implementation of Section 86 involves the impact of property tax reform on the Board of Education for the City of Toronto. Boards of Education throughout the Province are in a different position with respect to the relationship between assessment and grants than are municipalities. Assessment is the key determinant of the levels of grant payable to Boards of Education. Therefore, any process or change which affects the total assessment will ultimately have impacts on the transfer payments made by the Province to the school boards.

The Board of Education for the City of Toronto would require assurance from the Province of Ontario that any application of the Section 86 provision of The Assessment Act, or other property tax reforms, would not have the effect of reducing the Board's assessment base.

The Board of Education of the City of Toronto is further concerned about the significant proportion of education costs currently being financed by the property tax. The Province of Ontario should ensure that, as a first step towards the eventual removal of the education portion of the residential property tax, not more than 35% of the total costs of education be borne by the property tax. This increase in the proportion of education costs that will be assumed by the Province should not affect the powers, duties and integrity of Boards of Education.

In conclusion, the Committee would consider implementation of Section 86 reform in the City of Toronto, provided that measures are taken by the Province to allow the other tax reform proposals listed in this chapter, which appear either inconsistent with Section 86 or are not covered by this legislation. The recommended modifications to the Ontario Property Tax Credit Program and the assurances required by the City of Toronto Board of Education are fundamental components of any tax reform package that is based on the Section 86 framework.

TABLE 3

TAX INCREASES — SINGLE RESIDENCE CLASS
SECTION 86 REASSESSMENT IMPLEMENTED IN 1979
NUMBER OF PROPERTIES EXPERIENCING TAX INCREASES IN DOLLARS PER YEAR (1979) Of:

1975 Market Value Range	$00-50	$50-100	$100-150	$150-200	$200-300	$300-400	$400-500	$500-750	$750-1,000	$1,000+	Total
$ 0- 10,000	3	0	0	0	0	0	0	0	0	0	3
$ 10,000- 20,000	24	44	6	0	0	0	0	0	0	0	74
$ 20,000- 30,000	162	298	333	207	55	1	0	0	0	0	1,056
$ 30,000- 40,000	2,355	2,436	2,098	1,533	1,434	127	0	0	0	0	9,983
$ 40,000- 45,000	2,333	2,634	1,759	1,136	1,452	247	8	0	0	0	9,569
$ 45,000- 50,000	2,428	2,217	1,779	1,098	1,268	381	36	2	0	0	9,209
$ 50,000- 55,000	1,404	1,424	1,077	843	848	375	68	9	0	0	6,048
$ 55,000- 60,000	872	788	716	515	530	220	114	30	0	0	3,785
$ 60,000- 65,000	641	596	435	387	389	162	73	63	0	0	2,746
$ 65,000- 70,000	365	255	269	146	229	118	81	98	0	0	1,561
$ 70,000- 80,000	422	310	231	167	239	155	102	138	4	0	1,768
$ 80,000- 90,000	232	179	118	116	136	108	59	80	5	0	1,033
$ 90,000-100,000	91	80	69	68	82	58	36	61	27	1	573
$100,000-150,000	326	260	215	160	190	131	73	131	39	14	1,539
$150,000-200,000	56	50	43	34	73	45	24	38	12	21	396
$200,000+	15	8	14	17	10	19	16	25	5	26	155
TOTAL	11,729	11,579	9,162	6,427	6,935	2,147	690	675	92	62	49,498

SOURCE: Ministry of Revenue

TABLE 4

TAX DECREASES — SINGLE RESIDENCE CLASS
SECTION 86 REASSESSMENT IMPLEMENTED IN 1979
NUMBER OF PROPERTIES EXPERIENCING TAX DECREASES IN DOLLARS PER YEAR (1979) Of:

1975 Market Value Range	$00-50	$50-100	$100-150	$150-200	$200-300	$300-400	$400-500	$500-750	$750-1,000	$1,000+	Total
$ 0- 10,000	9	2	7	0	4	2	1	3	1	15	44
$ 10,000- 20,000	104	31	11	2	1	1	0	0	0	1	151
$ 20,000- 30,000	345	90	7	4	10	1	3	1	0	7	468
$ 30,000- 40,000	1,609	765	205	57	26	10	8	6	2	4	2,692
$ 40,000- 45,000	2,357	1,191	359	134	82	15	3	3	1	1	4,146
$ 45,000- 50,000	2,024	1,201	581	254	180	37	15	7	0	0	4,299
$ 50,000- 55,000	1,288	940	520	309	291	58	9	4	2	1	3,422
$ 55,000- 60,000	1,050	748	619	423	418	138	31	7	4	0	3,438
$ 60,000- 65,000	629	962	641	464	517	184	61	27	4	1	3,490
$ 65,000- 70,000	387	536	427	352	379	180	83	42	4	3	2,393
$ 70,000- 80,000	437	485	548	397	498	282	124	105	18	5	2,899
$ 80,000- 90,000	250	335	416	268	445	244	132	132	14	10	2,246
$ 90,000-100,000	130	152	261	139	242	173	113	119	26	13	1,368
$100,000-150,000	335	365	448	417	692	565	467	619	246	112	4,266
$150,000-200,000	58	68	90	64	172	169	98	245	133	188	1,285
$200,000+	17	12	13	20	39	38	39	106	88	259	631
TOTAL	11,029	7,883	5,153	3,304	3,996	2,097	1,187	1,426	543	620	37,238

SOURCE: Ministry of Revenue

XII

RECOMMENDATIONS

1:1 That a reformed tax system adopted by the City of Toronto contain the following fundamental elements:

a. a reformed assessment based on market value;
b. a system of differential effective tax rates for different classes of property; and
c. improved tax relief for low- and moderate-income taxpayers.

2:1 That the market value of property updated every four years be accepted as a fair assessment base for property taxation, subject to the fundamental conditions stated in Recommendations 1:1(b) and 1:1(c).

2:2 That for properties in the residential classes:

a. assessed values should not be adjusted downward to reflect a substandard state of repair;

b. where there is 1) an alteration to load-bearing walls of the structure; or 2) increase (decrease) in the number of units; or 3) increase in livable floor area; or 4) increase (decrease) in the number of rooms; that this (these) change(s) be reflected on the assessment roll immediately subsequent to the completion of the work; and

c. that increases in market value resulting from any other modification or renovation to the property be reflected in the assessment roll only as a result of comprehensive reassessment.

2:3 That Council be empowered on a discretionary basis, to provide tax relief to properties on which historic buildings designated under The Ontario Heritage Act are situated, along the lines described in Section 2 of this report.

3:1 That a reformed tax system embody multiple mill rates by class and assessments at full market value, or as a second preference, single mill rate and assessments at specified proportions of market value in each class; further that differences in effective tax rates among classes be made clear to owners of property in their tax bills.

4:1 That the Provincial Government restructure the Ontario Property Tax Credit Program to improve property tax relief to low- and moderate-income households, so that there is a substantial degree of offset to any tax increase caused by reassessment.

4:2 That the following means be adopted to achieve the objective of property tax relief to low- and moderate-income households:

a. Income for tax credit purposes be defined as household income (adjusted for normal extra expenses of a multiple-income household such as child care costs) rather than higher individual income;

b. Income for tax credit purposes be further defined as total income less personal exemptions rather than taxable income;

c. A maximum of $1,000 be set on the amount of property tax which can be claimed for credit rather than the existing $500 ceiling on total credits paid out;

d. The basis for computing a tenant's property tax credit be actual property tax allocated to a unit rather than the existing 20% of rent; and

e. The effective proportion of property tax eligible for credit be substantially increased from the present level, with the credit paid being determined by subtracting a proportion of income from that eligible proportion of tax.

5:1 That a classification system be established as follows:

(a) Residential:

- single unit properties (including owner-occupied condominiums);
- multiple-unit properties containing two to six units; and
- multiple-unit properties containing seven or more units.

(b) Commercial:

- large commercial: over seven storeys; and with a gross commercial floor area exceeding 10,000 square feet; and

- small commercial: seven storeys or fewer; and with a gross commercial floor area less than 10,000 square feet.

(c) Industrial

(d) Institutional/Residual

5:2 That all property be classified and taxed on the basis of its normal and permitted use without reference to whether it is occupied or vacant at the time it is assessed.

5:3 That vacant land be assessed on the basis of market value and classified for tax purposes in that land use category permitted by its zoning designation which carries the highest effective tax rate.

5:4 That Provincial grants-in-lieu of taxes be increased to cover full (including school board) taxes on all Provincially-owned and funded properties.

5:5 That all T.T.C. property be exempted from taxation.

5:6 That the present exemptions for churches, cemeteries, non-profit private schools and charitable property be continued.

6:1 That a process be established allowing the City to initiate changes in property tax class shares at annual intervals (independently of changes in shares caused by development-related changes to the roll) in response to equity and land use considerations, where such process would be subject to Provincial oversight.

6:2 That the process referred to in Recommendation 6:1 involve the following steps:

a. Changes in property tax class shares to be initiated by City Council's Budget Review Committee, in consultation with the City of Toronto Board of Education and the Metropolitan Toronto Separate School Board, by means of a report to Council on the nature and reasons for the proposed changes.

b. Proposed changes in tax burdens approved by Council to be sent to the Minister of Revenue for approval and implementation.

c. Ontario Municipal Board Hearings to be held for a thorough and open examination of proposals, when the Minister of Revenue and the City are unable to agree on appropriate changes in tax shares.

6:3 That the initial set of class tax shares following reassessment be those which existed in 1980, except that the distribution between the industrial and large commercial classes be further adjusted as required to leave the assessment to market value factor for industry no higher than that for large commercial.

7:1 That the City undertake to inform all tenants in all non rent controlled multiple-residence properties of the amount of change in property tax for their unit; and that said information be included with the assessment notice.

7:2 That the City request the Province to implement legislative amendments to adjust rents in rent controlled buildings to reflect changes in taxes, and that the data on which such adjustments are based be made available to tenants.

8:1 That all upward and downward property tax shifts affecting individual properties be phased in by equal annual steps over a five-year period.

9:1 That there be a uniform general rate of business tax levied on all business occupants, except that a preferential rate of one-half the general rate be established for the selling premises of retail businesses selling goods and services, having five or fewer outlets in Ontario, and having a floor area less than 10,000 square feet.

9:2 That the question of preferential business tax treatment for manufacturing activity be studied further in the context of industrial policy in general.

9:3 That the rate of business tax assessment be set so as to raise the same total business tax receipts from all properties combined under the new system as would have been raised under the old in the first year following reassessment.

10.1 That the City assume a direct role in the process of assessment review so as to exercise its right of standing, where deemed advisable by Council, in privately-initiated assessment appeals and to monitor assessments placed on major new developments.

10:2 That pending a comprehensive assessment reform, the City initiate assessment appeals respecting under-assessed commercial properties, so as to contain the loss of assessment resulting from successful privately-initiated appeals in the commercial class; further that the criteria for designating subjects of such City-initiated appeals be objective and available to the public.

11:1 That the City not request Section 86 reform of the property tax system in the City of Toronto until the Province restructures the Ontario Property Tax Credit Program, as outlined in Recommendation 4:1 and 4:2, to improve property tax relief for low- and moderate-income households, so that there is a substantial degree of offset to any tax increase for such households caused by reassessment under Section 86.

11:2 That, subject to the condition outlined in Recommendation 11:1, the City endorse the general principles of Section 86 reassessment as a framework in which to implement the Committee's tax reform proposals as outlined in this report.

11:3 That the Minister of Revenue be requested to ensure that any Section 86 reassessment implemented in the City of Toronto not reduce the assessment base of the Board of Education of the City of Toronto.

The Committee is concerned about the significant proportion of the costs of education currently financed by the property tax.

The Committee recommends that the Province of Ontario ensure that, as a first step towards the eventual removal of the education portion of the residential property tax, not more than 35% of the total costs of education be borne by the property tax.

The powers, duties and integrity of Boards of Education should not be affected by this increase in the proportion of education costs that will be assumed by the Province of Ontario.